FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR 1987

TUESDAY, MARCH 18, 1986.

LATIN AMERICA AND CARIBBEAN REGIONAL PROGRAMS

WITNESSES

ELLIOTT ABRAMS, ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

DWIGHT D. INK, ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

Mr. OBEY. This morning the Committee will hear from Administration witnesses on the fiscal 1987 request for Central and Latin America.

The request breaks down to $1.2 million for Central America; $275 for South America; and $339 million for the Caribbean Basin.

In all the fiscal '87 requests for all areas under the Latin and Central American region has increased in the budget request by $538 million above this year's level. And it represents a total program for fiscal '87 of $1.8 billion. Almost 70% of that increase is for Central America.

[Tables follow:]

LATIN AMERICA AND CARIBBEAN PROGRAMS

FY 1985 - FY 1987 Comparison Tables
($000)

COUNTRY/PROGRAM	FY 1985 TOTAL	FY 1986 TOTAL	FY 1987 TOTAL	----FY 86/FY 87---- DIFFERENCE	PERCENTAGE
Antigua	45	0	0	0	
Argentina	0	10	100	90	900.00%
Bahamas	44	48	60	12	25.00%
Barbados	69	0	0	0	
Belize	24,730	11,405	14,108	2,703	23.70%
Bolivia	15,481	30,454	40,367	9,913	32.55%
Brazil	750	700	1,325	625	89.29%
Chile	0	0	100	100	
Colombia	11,476	21,007	31,130	10,123	48.19%
Costa Rica	194,649	137,130	172,508	35,378	25.80%
Dominica	41	0	0	0	
Dominican Republic	136,292	71,368	91,850	20,482	28.70%
Ecuador	42,975	51,000	49,795	(1,205)	-2.36%
El Salvador	509,005	384,945	461,250	76,305	19.82%
Grenada	11,191	0	0	0	
Guatemala	74,028	91,092	123,675	32,583	35.77%
Guyana	0	0	50	50	
Haiti	32,426	27,077	29,617	2,540	9.38%
Honduras	264,220	169,482	235,232	65,750	38.79%
Jamaica	124,569	88,426	133,574	45,148	51.06%
Mexico	9,896	10,291	11,560	1,269	12.33%
Panama	79,411	31,172	60,650	29,478	94.57%
Paraguay	2,078	1,729	1,782	53	3.07%
Peru	35,256	32,159	88,530	56,371	175.29%
St. Christ-Nevis	26	0	0	0	
St. Lucia	48	0	0	0	
St. Vincent	56	0	0	0	
Suriname	42	48	50	2	4.17%
Trinidad & Tobago	39	48	50	2	4.17%
Uruguay	100	14,451	17,625	3,174	21.96%
Venezuela	96	72	150	78	108.33%
Caribbean Regional	54,676	65,581	83,582	18,001	27.45%
Central American Reg	54,648	80,269	81,038	769	0.96%
PACAMS	5,106	4,957	3,000	(1,957)	-39.48%
ROCAP	105,809	20,490	62,962	42,472	207.28%
LAC Regional	33,171	41,102	44,100	2,998	7.29%
Total	1,822,449	1,386,513	1,839,820	453,307	32.69%
(Central America) *	(1,306,500)	(925,985)	(1,211,423)	(285,438)	30.83%

LAC Development Assistance
($000)

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	FY 86/FY 87	
				DIFFERENCE	PERCENTAGE
Belize	7,650	6,550	7,500	950	14.50%
Bolivia	10,584	9,292	9,292	0	0.00%
Costa Rica	20,526	10,900	16,000	5,100	46.79%
Dominican Republic	30,078	24,500	28,658	4,158	16.97%
Ecuador	28,051	22,500	22,500	0	0.00%
El Salvador	87,755	81,098	85,000	3,902	4.81%
Guatemala	58,033	35,000	40,000	5,000	14.29%
Haiti	25,648	22,256	22,256	0	0.00%
Honduras	44,333	43,215	51,025	7,810	18.07%
Jamaica	33,550	19,000	23,000	4,000	21.05%
Panama	18,822	17,200	18,100	900	5.23%
Paraguay	48	--	--	0	
Peru	24,185	17,875	20,000	2,125	11.89%
Caribbean Regional	26,507	29,600	35,834	6,234	21.06%
Central American Reg	27,550	28,791	34,538	5,747	19.96%
ROCAP	34,914	20,290	34,462	14,172	69.85%
LAC Regional	29,128	27,403	24,100	(3,303)	-12.05%
Total	507,362	415,470	472,265	56,795	13.67%
(Central America) *	(299,583)	(243,044)	(286,625)	(43,581)	17.93%

LAC Economic Support Fund
($000)

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	-----FY 86/FY 87-----	
				DIFFERENCE	PERCENTAGE
Belize	14,000	1,914	3,000	1,086	56.74%
Bolivia	—	14,355	20,000	5,645	39.32%
Costa Rica	160,000	120,582	150,000	29,418	24.40%
Dominican Republic	95,000	40,000	50,000	10,000	25.00%
Ecuador	4,414	20,097	15,000	(5,097)	-25.36%
El Salvador	285,000	177,045	240,000	62,955	35.56%
Grenada	11,128	—	—		
Guatemala	12,500	47,850	70,000	22,150	46.29%
Haiti	5,000	2,871	5,000	2,129	74.16%
Honduras	147,500	61,248	90,000	28,752	46.94%
Jamaica	81,000	59,334	100,000	40,666	68.54%
Panama	50,000	5,742	28,000	22,258	387.63%
Peru	—	9,570	37,000	27,430	286.62%
Uruguay	—	14,355	15,000	645	4.49%
Caribbean Regional	20,000	25,172	35,000	9,828	39.04%
Central American Reg	27,098	51,478	46,500	(4,978)	-9.67%
ROCAP	70,895	200	28,500	28,300	14150.00%
LAC Regional	1,490	6,699	12,000	5,301	79.13%
Total	985,025	658,512	945,000	286,488	43.51%
(Central America) *	(766,993)	(466,059)	(656,000)	(189,941)	40.75%

LAC Total Military Assistance
($000)

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	--->FY 86/FY 87-----	
				DIFFERENCE	PERCENTAGE
Antigua	45	0	0	0	
Argentina	0	10	100	90	900.00%
Bahamas	44	48	60	12	25.00%
Barbados	69	0	0	0	
Belize	600	551	1,100	549	99.64%
Bolivia	3,360	3,157	6,400	3,243	102.72%
Brazil	0	10	100	90	900.00%
Chile	0	0	100	100	
Colombia	826	10,407	20,950	10,543	101.31%
Costa Rica	11,231	2,584	3,350	766	29.64%
Dominica	41	0	0	0	
Dominican Republic	8,721	4,522	10,850	6,328	139.94%
Ecuador	6,688	4,498	8,650	4,152	92.31%
El Salvador	136,250	126,802	136,250	9,448	7.45%
Grenada	63	0	0	0	
Guatemala	455	5,072	10,500	5,428	107.02%
Guyana	0	0	50	50	
Haiti	743	910	1,100	190	20.88%
Honduras	67,404	59,717	88,800	29,083	48.70%
Jamaica	7,643	7,895	8,300	405	5.13%
Mexico	200	191	250	59	30.89%
Panama	10,589	8,230	14,550	6,320	76.79%
Paraguay	95	48	125	77	160.42%
Peru	8,657	703	25,850	25,147	3577.10%
St. Christ-Nevis	26	0	0	0	
St. Lucia	48	0	0	0	
St. Vincent	56	0	0	0	
Suriname	42	48	50	2	4.17%
Trinidad & Tobago	39	48	50	2	4.17%
Uruguay	100	96	2,625	2,529	2634.38%
Venezuela	96	72	150	78	108.33%
Caribbean Regional	5,000	7,552	9,400	1,848	24.47%
PACAMS	5,106	4,957	3,000	(1,957)	-39.48%
LAC Regional	0	0	4,000	4,000	
Total	274,237	248,128	356,710	108,582	43.76%
(Central America) *	(226,529)	(202,956)	(254,550)	(51,594)	25.42%

LAC Peace Corps
($000)

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	FY 86/FY 87 DIFFERENCE	FY 86/FY 87 PERCENTAGE
Belize	2,480	2,390	2,508	118	4.94%
Costa Rica	2,892	3,064	3,158	94	3.07%
Dominican Republic	2,493	2,346	2,342	(4)	-0.17%
Ecuador	3,408	2,965	2,800	(165)	-5.56%
Guatemala	3,040	3,170	3,175	5	0.16%
Haiti	1,035	1,040	1,261	221	21.25%
Honduras	4,983	5,302	5,407	105	1.98%
Jamaica	2,376	2,197	2,274	77	3.50%
Paraguay	1,935	1,681	1,657	(24)	-1.43%
Caribbean Regional	3,169	3,257	3,348	91	2.79%
Total	27,811	27,412	27,930	518	1.89%
(Central America) *	(13,395)	(13,926)	(14,248)	(322)	2.31%

LAC Narcotics
($000)

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	FY 86/FY 87 DIFFERENCE	FY 86/FY 87 PERCENTAGE
Bolivia	1,537	3,650	4,675	1,025	28.08%
Brazil	750	690	1,225	535	77.54%
Colombia	10,650	10,600	10,180	(420)	-3.96%
Ecuador	414	940	845	(95)	-10.11%
Mexico	9,696	10,100	11,310	1,210	11.98%
Peru	2,414	4,011	5,680	1,669	41.61%
LAC Regional	2,553	7,000	4,000	(3,000)	-42.86%
Total	28,014	36,991	37,915	924	2.50%
(Central America) *	(0)	(0)	(0)	0	

ECONOMIC** AND MILITARY ASSISTANCE TO CENTRAL AMERICA
FY 1980-87
(Millions of Dollars)

	FY 80 Actual	FY 81 Actual	FY 82 Actual	FY 83 Actual	FY 84 Actual 1/	FY 85 Actual	FY 86 Est. 2/	FY 87 Pro
BELIZE								
Economic	--	--	--	16.70	15.35	10.20	8.46	10.50
Military	--	--	*	0.07	0.55	0.60	0.55	1.10
Total	0.00	0.00	0.00	16.77	15.90	10.80	9.01	11.60
COSTA RICA								
Economic	13.60	13.30	50.60	212.40	174.69	195.13	154.48	184.00
Military	--	*	2.10	2.63	9.13	11.23	2.58	3.35
Total	13.60	13.30	52.70	215.03	183.82	206.36	157.06	187.35
EL SALVADOR								
Economic	58.50	104.00	186.10	245.60	323.49	314.29	308.89	377.73
Military	6.00	35.50	82.00	81.30	196.55	136.25	126.80	136.25
Total	64.50	139.50	268.10	326.90	520.04	450.54	435.69	513.98
GUATEMALA								
Economic	11.40	16.70	13.50	27.60	31.57	79.06	101.29	133.69
Military	--	--	--	--	--	0.46	5.07	10.50
Total	11.40	16.70	13.50	27.60	31.57	79.52	106.36	144.19
HONDURAS								
Economic	50.70	36.10	78.10	102.70	169.71	119.33	122.78	156.78
Military	4.00	8.90	31.30	37.30	77.44	67.40	59.72	88.80
Total	54.70	45.00	109.40	140.00	247.15	186.73	182.50	247.58
PANAMA								
Economic	2.10	10.50	13.10	7.30	45.73	34.82	22.94	46
Military	0.30	0.40	5.40	5.45	13.50	10.59	8.23	14.55
Total	2.40	10.90	18.50	12.75	59.23	45.41	31.17	60.65
REGIONAL PROGRAMS								
Economic	4.20	10.60	13.10	19.40	55.29	120.63	100.76	144.00
Military(RMTC)	--	--	--	--	18.50	--	--	--
Total	4.20	10.60	13.10	19.40	73.79	120.63	100.76	144.00
TOTAL								
Economic	140.50	191.20	354.50	631.70	815.83	873.46	819.60	1,054.80
Military	10.30	44.80	120.80	126.74	315.67	226.53	202.96	254.55
	150.80	236.00	475.30	758.44	1,131.50	1,099.99	1,022.56	1,309.35

NOTES
*Less than $50,000
**Economic Assistance includes DA, ESF and P.L. 480

1/ Includes FY 1984 Supplemental
2/ After Gramm-Rudman reductions

Mr. **Obey**. The Central and South American requests have continued to expand yearly, while programs in less developed countries are either being reduced or are in many cases stagnant. For instance, the Central and South American programs are now 40% more than we are spending in all of Africa.

I believe there's a feeling on this Committee that we need to continue to support the democratic governments in Central and South America. I think there are legitimate questions about the effectiveness of the budget request in achieving that, and the effectiveness of the Administration's policy as well in achieving those goals.

Mr. Secretary, before we proceed, I simply want to emphasize to you what I have emphasized to virtually every other witness. In terms of dollars, this request which the Administration is making represents an ambitious increase in the commitment of financial resources. The problem, however, is that we are not being given any way to pay for it by the Administration. And we have got both obligations.

You in your position have an obligation to suggest to the Congress what policies you think make sense. We have got an obligation to ask two sets of questions: Number one, do those policies make sense? Do the methods which you are suggesting, and do the programs which you are proposing, actually meet the goals and have a reasonable chance of achieving the goals which you lay out?

And secondly, if they are important enough to be pursuing, are they important enough to be paying for? And if they are, how are we going to pay for them?

You do not have direct responsibility for the latter question, but we certainly do. And it is both those considerations that we will have in mind this morning as we hear your testimony. And I want to simply emphasize again to you the need for the Administration to lay out a plan to pay for what they are asking the Congress to spend.

This morning's hearing should cover a broad range of subjects. It would give any Members who care to, assuming there are some who come, an opportunity to ask any remaining questions they might have of you about the Administration's proposal to provide $100 million in new assistance to the contras, if there are any questions remaining in Members' minds. And I would hope that you would comment on that or any other question you care to comment about.

Before you do, I would call on Mr. Kemp for whatever comments he might like to make.

Mr. **Kemp**. Thank you, Mr. Chairman.

Welcome Elliott. It is nice to see you. Gentlemen.

I share the Chairman's interest in your testimony. I look forward to having the opportunity to talk about those critical issues facing this hemisphere. I appreciate very much your leadership now and in the past with regard to implementing what I consider to be the goals as outlined by the bipartisan Jackson Commission—or Kissinger Commission—on which I was privileged to serve as a member.

There is no doubt in my mind that the Kissinger Commission's great contribution to the nation understanding was its recognition of the vital security aspects of the isthmus of Central America to the security of the United States.

We all remember "Scoop" Jackson, and indeed, Jeanne Kirkpatrick talking about a Marshall Plan for Central America. Obviously, what Congress has done is not anywhere near a Marshall Plan, but we did provide significant economic and security support to Central America.

In that context, it seems to me it has been successful. There is much to be done, as I am sure you will outline in your testimony.

El Salvador is a success, even though there are troubling aspects of the economy and the insurgency continues, if not unabated, at least as a very vexing problem for the Duarte government and ourselves.

But certainly, in Honduras, Costa Rica, Guatemala, there has been progress. And it is in that context that we must view this vote Wednesday, in my opinion, as whether or not the United States is going to continue to be relevant not just in the hemisphere but in that particular part of the hemisphere so critical to the supplies, to the trade, to the human rights of Americans. And by Americans, of course, I am talking about the Americans in our hemisphere.

I thought Charles Krauthammer the other day put it very eloquently when he compared this vote to the Neutrality Act vote of the 1930's. The mistake of the Neutrality Act was to declare that in Europe in the 1930's that there was no aggression; that we were going to close our eyes; that there was to be no aggressor nor nation aggressed upon. As the fascists were attacking Abyssinia and the Nazis were violating the Versailles Treaty and attacking the Rhineland and Austria and the Sudetenland and the Danzig Corridor, there was total Congressional neutrality.

And while I think parallels in history are seldom perfect—and this one certainly is not a perfect parallel—it does point up that if we turn our back on what is happening in Central America, it could be the mistake of the '80's parallel to that of the 1930's vis-a-vis what is happening to tiny little countries that seem so insignificant to the United States of America.

I really do appreciate what you have been able to do to raise the level of consciousness, as I did in the President's speech the other night.

One has to ask the question, and it will come up in my questioning, if this issue is, as you say and the President says, so critically important to the security of the United States—and I think it is critical, vital, and certainly that was the finding of the Kissinger Commission—why is it that we do not withdraw recognition of Nicaragua and recognize a government in exile? Why do we not take other steps diplomatically, even to the extent that we raise it to a higher level of concern with the Soviet Union at the summit? To me, it is as important as arms control.

Certainly, as the President portrayed it the other evening, it could clearly be considered as important and vital an interest as arms control. Why is it not higher on the agenda at the summit—the one past and the one pending, although obscured by international politics?

One other question I will want to ask is what the State Department and what type of economic policy we are supporting in Central America. Because it is not enough to keep the Marxists out of Central America; we have got to build up the democratic capitalistic center. And it is of great concern to me that particularly in Central America, but more particularly in El Salvador, we are fostering policies that are causing serious economic dislocations. In El Salvador, this has resulted in a weakening of the resistance, and a weakening of the effort of the government to deal with this insurgency. And I frankly consider it as big a threat as the outside-imposed Marxist threat.

But I want you to know that I am a strong supporter of a Marshall aid approach to Central America. It is as important in the '80's as what Harry Truman and a bipartisan number of Members of Congress did in the 1940's to not only secure a free future for Greece and Turkey, but also to build up the security alliance that soon became the Atlantic Union.

Welcome. I appreciate your leadership, and look forward to spending some time on some of these vital questions facing our country's future.

Thank you, Mr. Chairman.

Mr. **Obey**. This morning we have with us as our witnesses Mr. Elliott Abrams, Assistant Secretary, Bureau of Inter-American Affairs, Department of State; Mr. Dwight Ink, Assistant Administrator, Bureau for Latin America and the Caribbean, Agency for International Development; and again with us, Lieutenant General Philip Gast, Director, Defense Security Assistance Agency, Department of Defense.

Mr. Secretary, why don't you proceed?

Mr. **Abrams**. Thank you, Mr. Chairman.

I would like to submit my statement for the record and just make some very brief opening remarks, if I could do that.

Mr. **Obey**. Sure.

[Statement follows:]

PREPARED STATEMENT OF
THE HONORABLE ELLIOTT ABRAMS
ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS
BEFORE THE FOREIGN OPERATIONS SUBCOMMITTEE
HOUSE APPROPRIATIONS COMMITTEE
MARCH 18, 1986

Our relationships with our neighbors in Central and South America and in the Caribbean demonstrate that foreign assistance directly enhances U.S. national interests. For the hemisphere as a whole, the success of economic cooperation obviates the need for greater security assistance: Our request for economic assistance is nearly five times the request for military assistance.

For FY 1987 we are requesting slightly over $2 billion ($2.021 billion) for economic and military assistance for the Western Hemisphere. Economic assistance -- consisting of Economic Support Funds (ESF), Development Assistance and food aid -- totals $1.664 billion. The military request consists of $357 million for loans and grants (MAP, FMS and IMET).

These levels of assistance are necessary even at this time of budget stringency in the United States. The needs the programs we are proposing are designed to meet involve important domestic concerns and constituencies. At the same time, much of the assistance we are requesting contributes either directly or indirectly to our long-term national security. Finally, the resources we have requested are at the mininum levels at which it is possible to protect our interests even under the favorable circumstances that have developed in recent years.

The most favorable of the circumstances improving the effectiveness of our assistance is that there has been a fundamental change in the types of governments now heading the countries in Latin America and the Caribbean. The movement toward democracy, in terms of the number of countries involved and the pace with which the change has occurred, is unprecedented.

One result is that our policy of economic, political and military support to pro-democratic forces meshes with the expanding movement toward democracy. Progress toward democracy means that we can work with governments that are in touch with the needs and aspirations of their people; with governments that must, and have begun to, think and plan for long-term economic improvement. Democratic development, and the rejection of the extremes of right and left, is contributing to strengthening peace and improving living standards for all.

A second result is that we are witnessing in several countries a slow but steady move away from misplaced trust in statist solutions to economic growth, and towards more open systems that rely on private investment and market-oriented policies.

While the Administration and the Congress may occasionally differ on the means, I think we are in broad agreement on what we want to accomplish in Latin America. Our goals in Latin America and the Caribbean are bipartisan. We all want to further democracy, establish the groundwork for renewed prosperity, and defeat anti-democratic insurgents and narcotics traffickers.

Although many trends in the region indicate progress, there is an ongoing need for assistance. We must continue to work together if we are to play a meaningful role in helping democratic governments to meet and overcome the obstacles to political and economic development.

In addition to the traditional social inequities and powerful vested interests which hinder progress, we now see newer scourges from narcotics and terrorism. Narcotics traffickers have the resources and influence to undercut the stability and integrity of these governments. Terrorists, often in league with narcotics traffickers, prey on the poverty of the region with promises that their Marxist ideologies have never been able to deliver. And if these problems were not enough to undermine the social and economic fabric of those countries, large external debts and low commodity prices have exacerbated the forces abetting disintegration.

The process of deepening the roots of democracy will take time. The basic underlying institutions common to democratic nations -- independent court systems, viable political party structures, police and military forces subject to non-partisan civilian control, for example -- will have to be strengthened, even as we deal with the other challenges that I have just mentioned.

Finally, the trend toward democracy is in itself a challenge. For if our neighbors, with our help, cannot successfully overcome their economic and social problems under democratic leadership, this period of democratic resurgence could ultimately prove short lived. And that would have devastating consequences for U.S. interests.

* * * * * * * * *

Let me now turn to the subregions of Latin America and the Caribbean to describe for you recent developments there and the what our proposals for FY 1987 are and mean.

Central America

In Central America we are carrying out the recommendations of the National Bipartisan Commission which the Congress confirmed last year when it added a new Chapter 6 of Part I of the Foreign Assistance Act of 1961. In this act it is stated that "the building of democracy, the restoration of peace, the improvement of living conditions, and the application of equal justice under law in Central America are important to the interests of the United States."

We have made significant progress toward those goals in Central America. In El Salvador democracy has continued to be consolidated under President Duarte. In Guatemala an elected civilian president has taken power for the first time in twenty years. In Honduras democratic presidential elections resulted in the first transfer of power from one elected civilian politician to another in sixty years. In Costa Rica, honest, fair elections earlier this year continued a long tradition. At the same time, as political developments take a positive course, the serious economic problems stemming from world economic conditions, the need for further institutional development, and Nicaraguan subversion and aggression are being met. The economies of the democratic republics are turning upward. Most importantly, sound adjustment measures are being taken to establish the basis for self-sustaining growth.

The situation in Nicaragua is in sharp contrast to that of the Central American democracies. There have been no free and fair elections there under the Sandinistas. A group of Marxist-Leninists is imposing communist rule on an increasingly repressed population. Economic decline has followed mismanagement and loss of public confidence. The government has fallen behind in payments to most international financial institutions. Its arrears to the World Bank go back more than two years. Similar repayment problems exist with other creditors, some of whom are its immediate Central American neighbors. On the other hand, the other, democratic countries of Central America have generally improved their economic performance, although serious problems remain. Our assistance has been an important factor in this improved policy framework and will be necessary to ensure continued progress.

In El Salvador our economic and military assistance have played a major role in fostering our objectives. At the beginning of this decade El Salvador appeared enmeshed in a never-ending war between left-wing, externally-supported guerrillas and right-wing death squads. While our military assistance helped the Salvadoran government combat the insurgents, our economic assistance supported the reform programs of the elected government of President Jose Napoleon Duarte. With this support, President Duarte demonstrated that electoral democracy and political dialogue formed a practical basis for attacking El Salvador's political, economic, social and security problems. As President Duarte has consolidated his government, the prospects for greater respect for human rights and for a better quality of life for the Salvadoran people have improved.

We are particularly encouraged by President Duarte's new economic stabilization program, which should bring about an acceleration in economic recovery. Our proposed ESF program for FY 1987, totalling $240 million, is designed to support President Duarte's efforts. Our military assistance, which at $135 million MAP and $1.6 million IMET is by far the largest in Latin America, will be used for training, equipment, ammunition and spare parts to sustain the effort against Marxist guerrillas. Procurement of major equipment will be aimed largely at offsetting attrition, and emphasis will be on improving mobility and small unit operations, and developing counter-terrorism capabilities.

Guatemala is another country where the winds of change have blown strongly in the last two years. Once categorized as the country with the "least chance of democratic development", since early 1984 Guatemala has surprised many of its critics with its strong movement toward representative government. Honest and open Constituent Assembly elections in July 1984 were followed in October and December 1985 by nation-wide elections for President, Vice President, Congress and local offices, offering a broad spectrum of choice to the Guatemalan people. This is a uniquely Guatemalan achievement -- all the credit belongs to the Guatemalan people; our assistance in the coming years will help ensure the consolidation of democratic, civilian government. That is why we believe it is important to support the new government of President Vinicio Cerezo.

Economic assistance is of primary importance, but military assistance will also have a crucial role to play. By helping to control the continuing guerrilla insurgency in that land, our military aid will provide President Cerezo with some breathing room to confront the social and economic problems of his country. Our aid request for Guatemala consists of $10.5

million in military assistance and $133 million in economic assistance, of which $70 million is in ESF, $40 million is in development assistance and the remainder is in PL480 food aid. The economic assistance will help the new government achieve its goals of economic stabilization and equitable growth.

As in Guatemala, elections in Honduras last October and the democratic succession of one elected president by another there this past January attest to the continuing trend toward democratization in the region. While the transition from authoritarian rule to elected civilian government is one of the first steps toward democracy, the peaceful transfer of power from one government to the next is also an important sign that democratic institutions are developing. This is the message that comes from Honduras.

We are now engaged in comprehensive economic policy discussions with the newly inaugurated government, with the objective of defining a policy mix which will reinforce the already positive trends in the Honduras economy. At the same time, Honduran concern at the Cuban- and Soviet-supported military build-up in Nicaragua has led to U.S. assistance in the modernization and modest expansion of the Honduran armed forces. Our aid request of $159 million economic assistance and $89 million military assistance will be used for these purposes.

In Costa Rica, our military assistance request of $3.4 million is part of a program designed to maintain equipment previously provided as we assist the security forces to develop a minimal capacity to counter terrorist activity. Our economic assistance will continue to support Costa Rica's stabilization and structural adjustment efforts already underway. We are requesting a total of $189 million in economic assistance for Costa Rica.

For Panama, our proposed military assistance of $46 million and economic assistance of $14.5 million respectively, should be viewed in the framework of the Panama Canal Treaty agreements. The military assistance is to meet the need to prepare the Panama Defense Force in its future role of defending the canal, while the economic assistance will help meet the basic needs of the Panamanian population and contribute to political stability beneficial to the continuing security of the Canal.

Only Nicaragua presents a blot on the otherwise promising horizon in Central America. While we were promoting democratic reform throughout Central America in recent years, the Sandinistas in Nicaragua were moving quickly -- as they continue to do -- to consolidate their one party power. Even now we see the Sandinistas attempting, with Soviet and Cuban assistance, to undermine the neighboring governments in the name of their so-called revolutionary, but in reality totalitarian, principles. During 1985 the Sandinista objective of imposing a totalitarian state in Nicaragua became ever more clear through the intensification of repressive measures in that country. Just as our assistance to the democratic governments in Central America shields them from Nicaraguan subversion and export of revolution, our support of the armed democratic resistance in Nicaragua is designed to prevent the consolidation of Sandinista power that would crush forever freedom and the hopes of democracy for the people of Nicaragua.

South America

The Andean nations of Bolivia, Colombia, Ecuador and Peru have serious economic problems, compounded by leftist insurgencies and narcotics trafficking. These democracies deserve our support as they struggle to deal with this situation in a responsible manner.

Bolivia's democratic government under President Paz has embarked on courageous adjustment program designed to bring order to the economic chaos that has long plagued this mountainous nation. Bolivia realizes that sustained growth depends on tapping the energies of its people, not relying on government as the repository of economic wisdom. The result has been some progress toward economic stability, including a dramatic lowering of inflation from an annual rate of over 20,000 per cent in August 1985 to an annual rate below 100 per cent in February 1986.

The road to democratic consolidation and sustained economic growth will be long and difficult, but at least, after years of false starts, we see that Bolivia is on that road and the journey has begun. That is a measurable success for the policies we have been following in Bolivia. I would be remiss if I didn't also warn you that to travel that road we must sustain and increase our assistance. For FY 1987, our request for economic aid to Bolivia is $57.6 million, while the request for military aid is $6.4 million.

Colombia, one of the oldest democracies in the hemisphere, has long had governments that have conservatively managed a relatively diverse economy. While Colombia through good management has avoided the more serious economic crises experienced by some of its neighbors, narcotics trafficking and terrorism threaten to undermine years of slow but steady economic and political progress. Evidence of cooperation between traffickers and terrorists has added a new and ominous dimension to the problems facing the government. Drugs give the terrorists access to potentially unlimited resources, while the terrorists in turn help support the narcotics trade.

Our interests parallel Colombia's in meeting this dual security threat. Our policies are designed to increase the ability of Colombia's security forces to meet the challenges they face. To do the job, we will need a modest increase in the amount of our small security assistance program. In view of the close identification of U.S. and Colombian interests in strengthening local forces to to combat narcotics traffickers, a portion of that program should be grant MAP funds.

In Ecuador, our assistance is being put to very good use in cooperation with the administration of President Febres-Cordero, a staunch friend who is dealing with growing insurgency and narcotics problems. We see eye to eye with Febres-Cordero on these twin scourges, and we are offering assistance appropriate to the need. Febres-Cordero is a pace-setter in Latin America in instituting measures to liberate the economy of the country from stifling state controls. Because Ecuador's government believes in the efficiency of the market place and the importance of the private sector, our assistance is also being employed to cushion the transition to an economy with a less intrusive public sector. In Ecuador we are on the right track--but we must sustain our assistance in order to make maximum efficient use of it.

The Peru of President Alan Garcia has used harsh rhetoric toward the U.S. in some areas of our relations. Nevertheless, Garcia is Peru's elected leader, one who on taking office last July inherited a large foreign debt, a ruthless terrorist threat, and a well-entrenched illicit narcotics industry. This, combined with extreme rural poverty, threatens Peru's stability. Our assistance policies are designed to help President Garcia in his commitment to stamp out narcotics trafficking, and in his determination to end terrorism within the context of democracy and respect for human rights.

The pursuit of U.S. interests in Peru, however, will require greater cooperation and understanding from the Peruvian government, and a larger commitment of resources than we have budgeted for 1986. I am afraid that without both of these elements, our interests will not be satisfactorily addressed.

In Uruguay, another South American democracy, the year-old government of President Sanguinetti is consolidating that country's return to democratic rule and attempting to revive the economy after years of decline. The Administration shares Congress's desire to be helpful, and is requesting $15 million in ESF to extend the assistance being provided this fiscal year. We are also requesting a small amount of military assistance ($2.5 million) to help the Uruguayan defense forces purchase some replacement equipment and parts.

The Caribbean Region

The enthusiastic greeting given to President Reagan in Grenada on February 20 demonstrates the attachment of our Caribbean neighbors to democracy and their identification with U.S. democratic ideals. There have been over 15 free, fair elections in the Caribbean in the past six years. We and these countries share a purpose and point of view that have created strong, close relations. In recent weeks we have welcomed the change in Haiti from a President-for-Life regime to a transition government which has pledged to restore elected government. U.S. support for the transitional Haitian Government will be necessary in order to help ensure that the promise of representative government is realized. Challenges still remain in promoting the necessary institutional development necessary to consolidate these favorable trends in the Caribbean. However, the countries there are making substantial progress.

While we take note of a favorable political trend, the economic situation in the Caribbean remains critical, in large part because of adverse developments in markets for the region's principal exports. Jamaica has suffered from falling demand for bauxite. The Dominican Republic and other sugar producers have been sorely affected by sharply lower U.S. sugar quotas. Haiti, the poorest country in the hemisphere, is caught in a vicious cycle of poverty, hunger, overpopulation, and environmental degradation. A heavy debt burden in many countries exacerbates these problems. In the face of these difficult circumstances, our economic assistance has played a key role in helping most of these countries sustain badly-needed adjustment programs.

In the Eastern Caribbean, progress is being made in building the infrastructure which is a requisite for sustained economic viability. Our assistance is directed largely at building the base which is essential for these islands to take full advantage of the trade and investment provisions of the Caribbean Basin Initiative. This aid is critical to their continued economic well-being. It aims to secure the basis for sound, sustained economic development.

Our small military assistance [illegible] Dominican Republic and Haiti are aimed at reducing illegal migration and narcotics trafficking. In the Eastern Caribbean we are assisting Grenada and the other small island nations in a limited program to assure their security, including cooperative efforts on a regional basis. These countries are currently considering entering into a more formal regional security system which will enhance their ability to deal with security problems, narcotics smugglers and rescues at sea.

Need for Continuing U.S. Commitment

Peace and economic development in the hemisphere require that we continue to demonstrate our long-term commitment to the survival and the strengthening of democratic institutions in the region, and they require confidence that this commitment will continue to be tied to equity, reform and freedom. Continuing bipartisan support is essential if the United States is to address -- in a consistently predictable way -- a balanced and mutually reinforcing mix of economic, political, diplomatic and security support and assistance.

There has been important progress toward the goal of peace, democracy and economic growth. We continue to build upon the advances of recent years. Our efforts to strengthen the administration of justice have moved forward in Central America and are beginning in the Caribbean and Soutn America. This is a long-term process that will require a sustained commitment. Our anti-narcotics programs in the hemisphere, in addition to combatting the supply of illicit drugs into our country, will also have a beneficial effect in support of democracy. Halting the flow of drugs will dry up the vast amounts of illegal funds that can be used to foster corruption in the hemisphere.

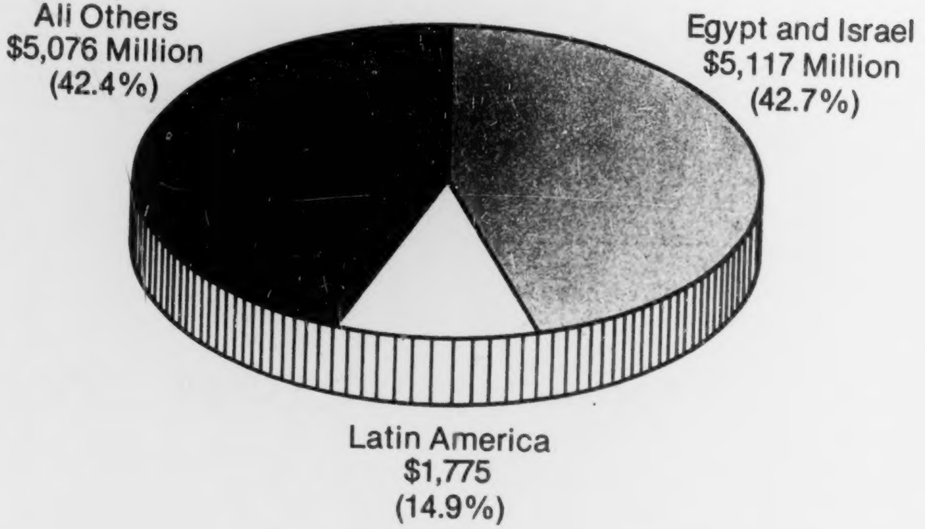
Our assistance programs must be complemented by policies which will promote private sector investment and export-led growth. The Caribbean Basin Initiative, for example, is succeeding in broadening and diversifying the production and export base of the region. It is beginning to have significant impact in establishing the basis for long term recovery.

Conclusion

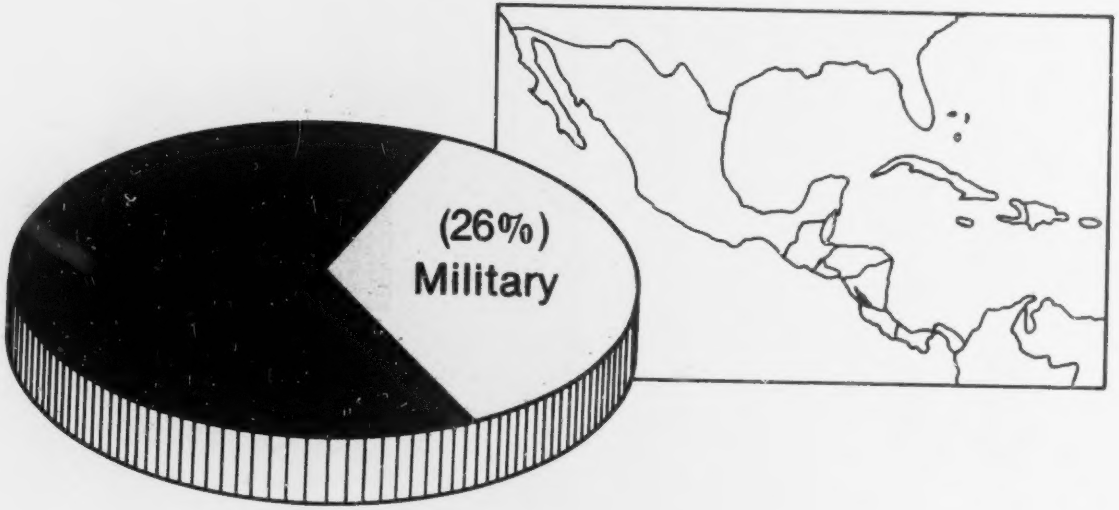
It is essential to American interests to support the democracies of Latin America and the Caribbean, including those nations in transition toward democracy, and to bolster the efforts of our neighbors to revitalize their economies. We cannot turn our backs just when the trend toward democracy is accelerating and our neighbors are beginning to take our advice with regard to freeing up their economies. They need our help to get them through this difficult period and to strengthen the foundation for future economic expansion. The reduction in funds available in FY 1986 has put our programs in jeopardy and has cast doubt on our credibility and commitment. I urge approval of the full Administration requests for FY 1987 to defend American interests in our own hemisphere.

U.S. Bilateral Assistance Worldwide

MILITARY AND ECONOMIC (ESF AND DA)
FY '87



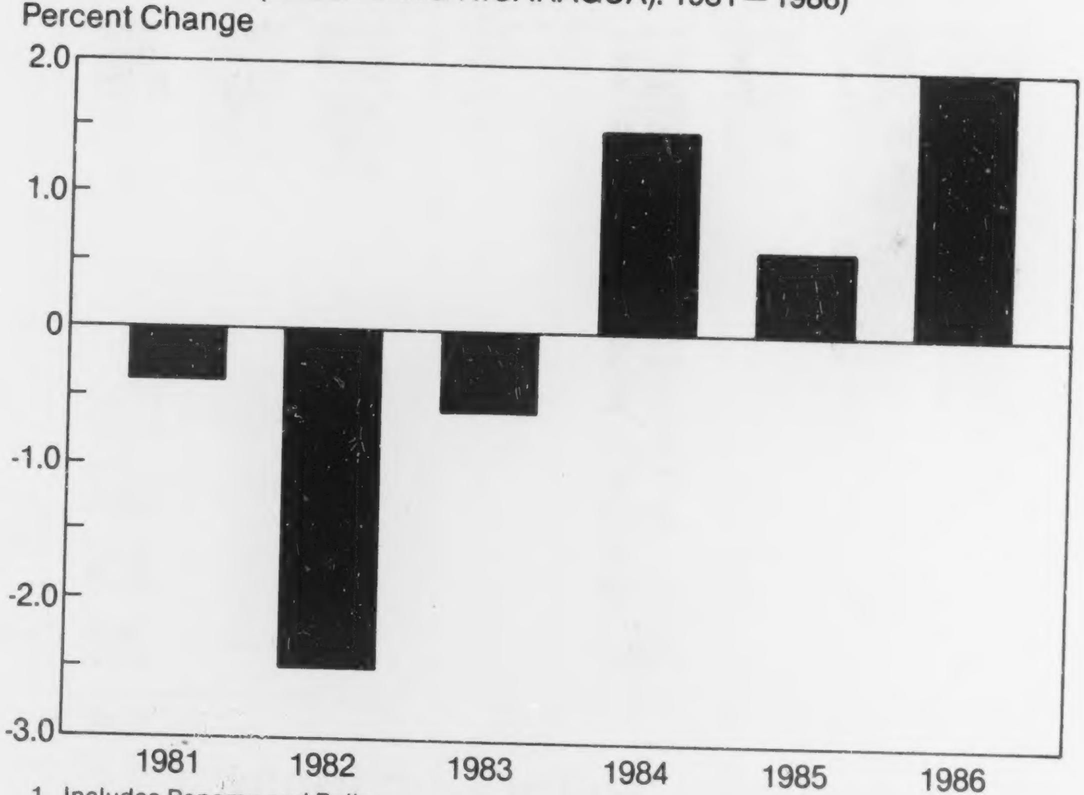
U.S. Aid to Central America



FY 83-86

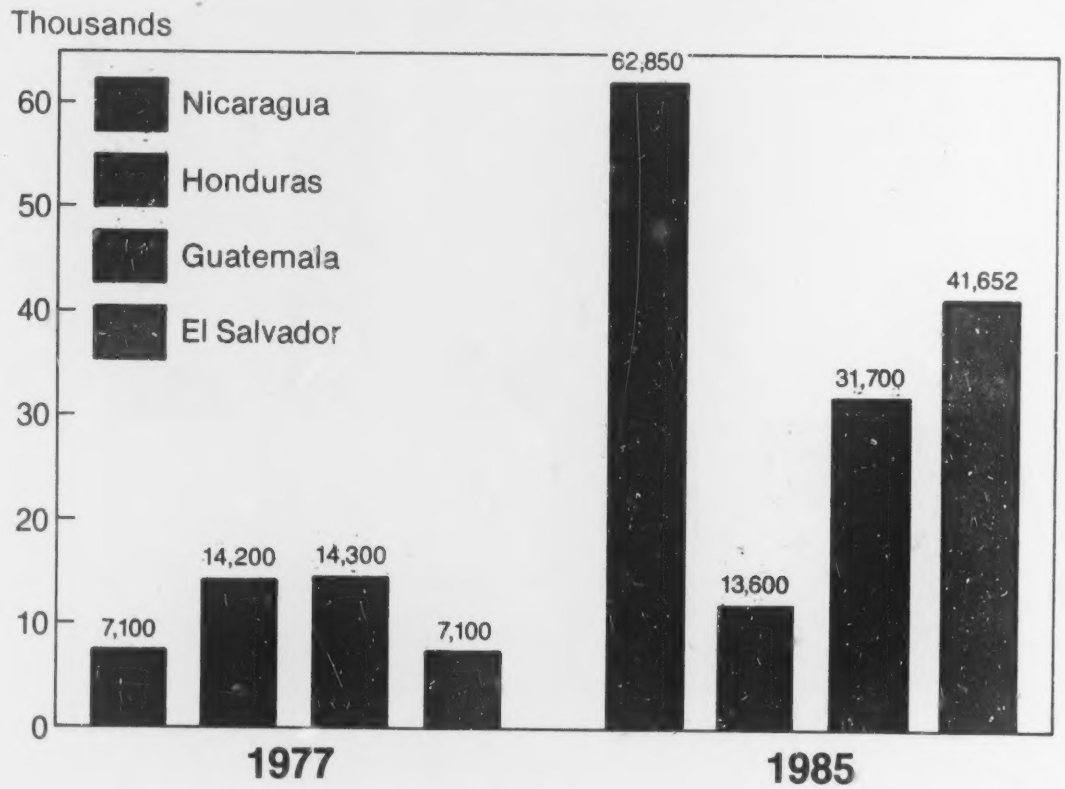
Central America[1] : Real GDP Growth[2]

(EXCLUDING NICARAGUA): 1981 – 1986)



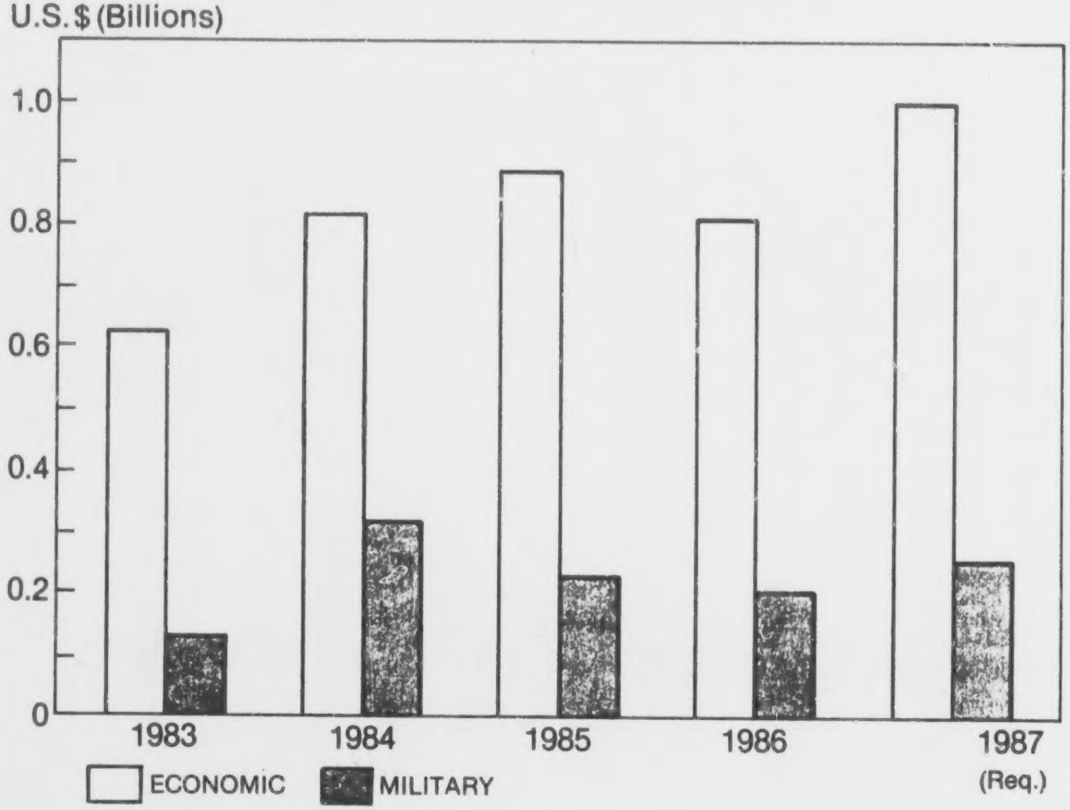
1. Includes Panama and Belize
2. Weighted average, based on 1985 World Bank figures.

Active Duty Armed Forces

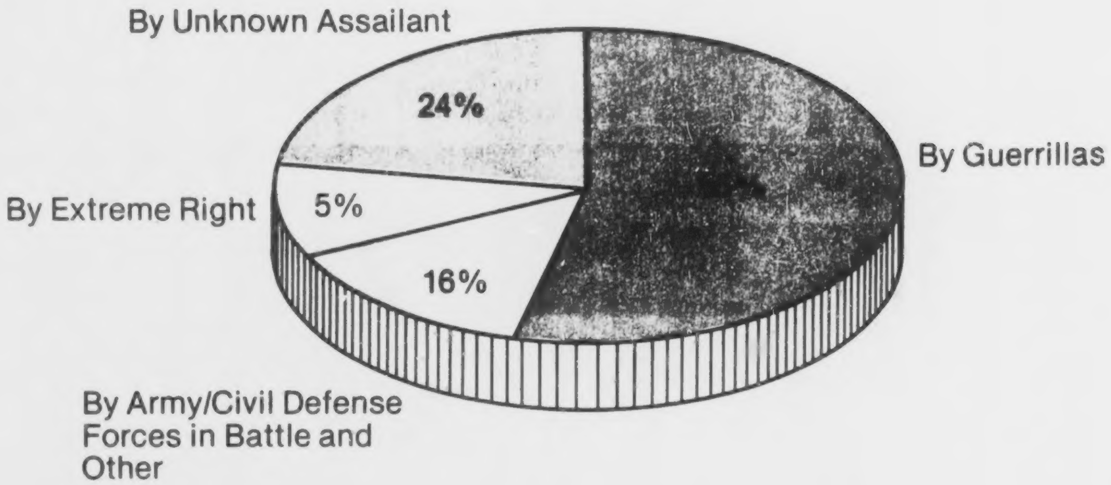


U.S. Bilateral Assistance

TO CENTRAL AMERICA: 1983—1987



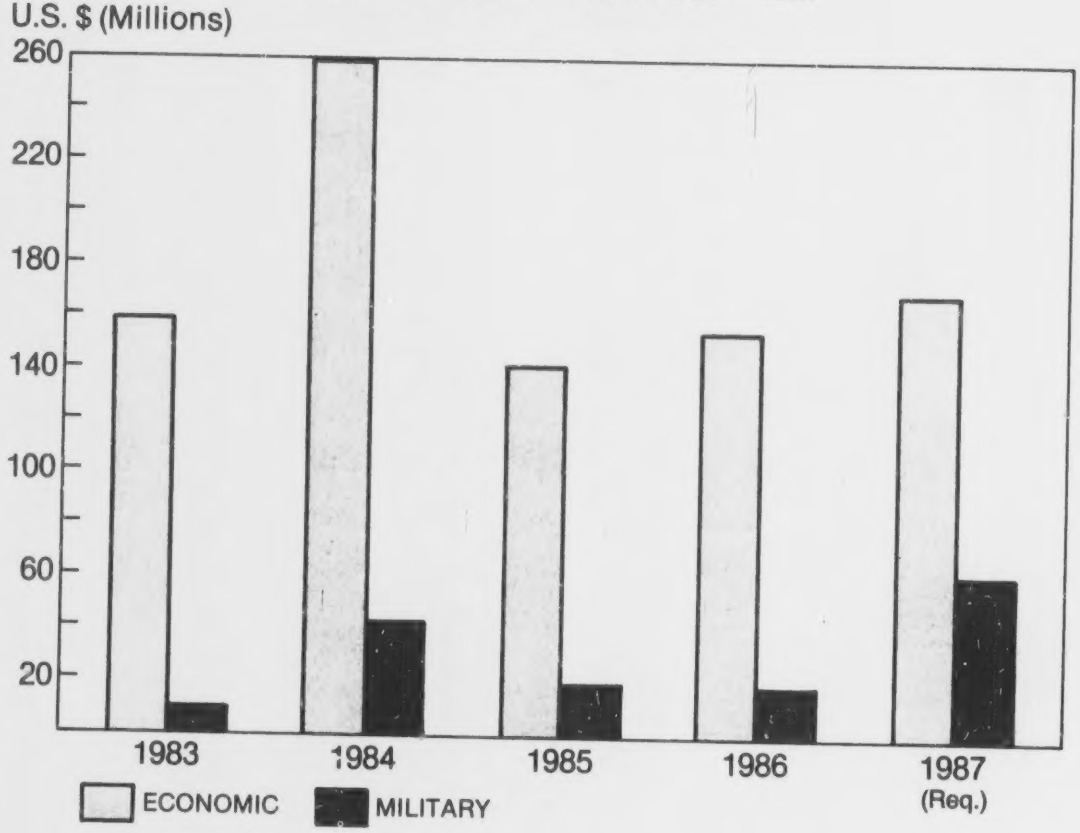
El Salvador:
Perpetrators of 1985 Political Violence



Total number of incidents: 335

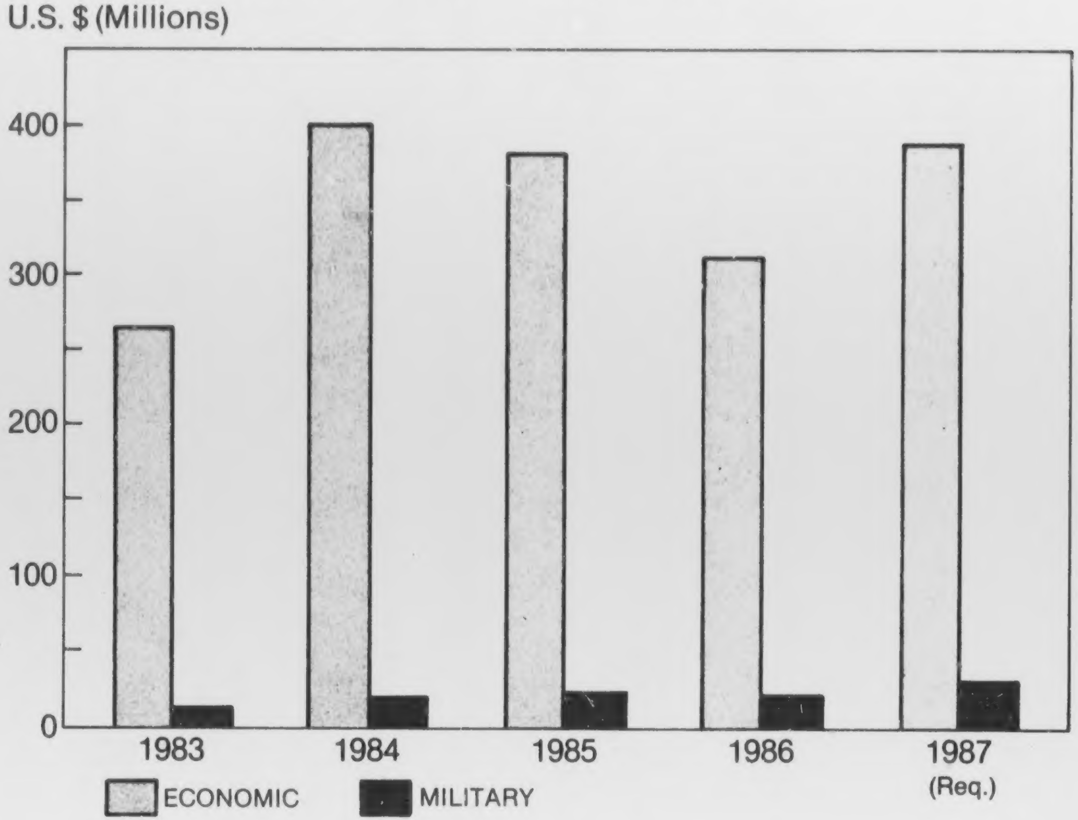
U.S. Bilateral Assistance

TO ANDEAN COUNTRIES: 1983—1987

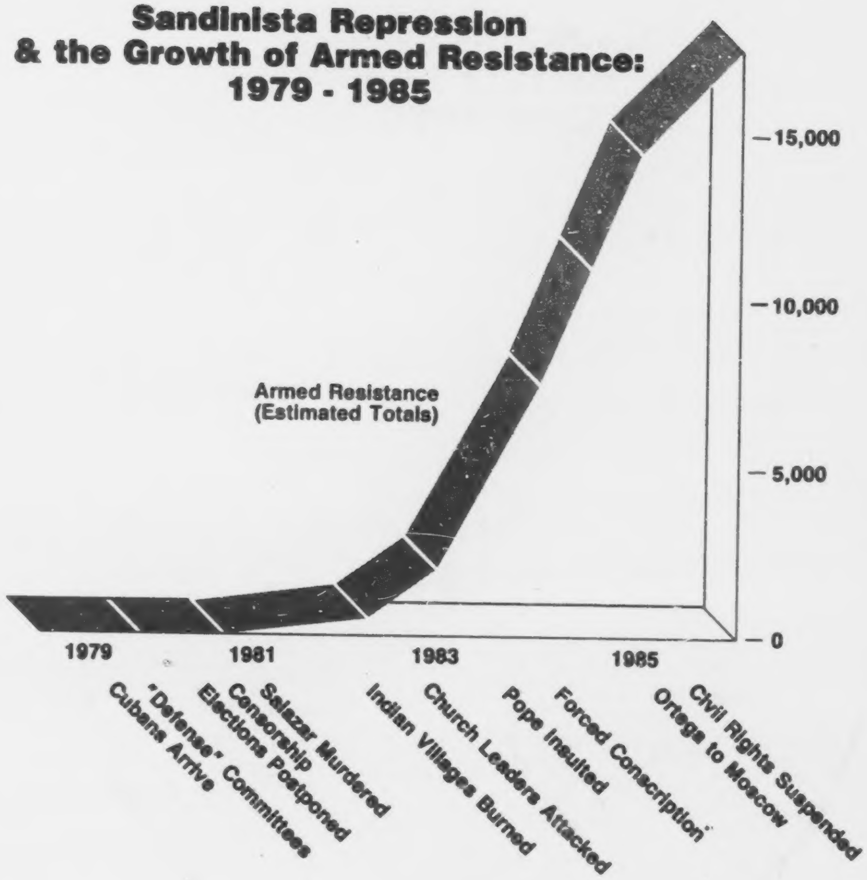


U.S. Bilateral Assistance

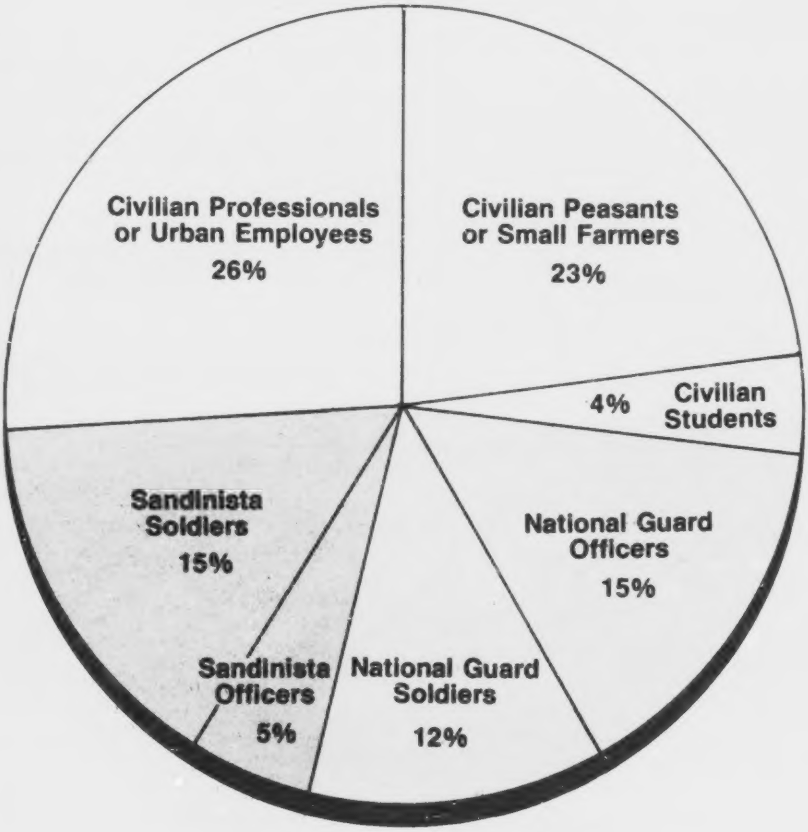
TO CARIBBEAN COUNTRIES: 1983—1987



Sandinista Repression & the Growth of Armed Resistance: 1979 - 1985

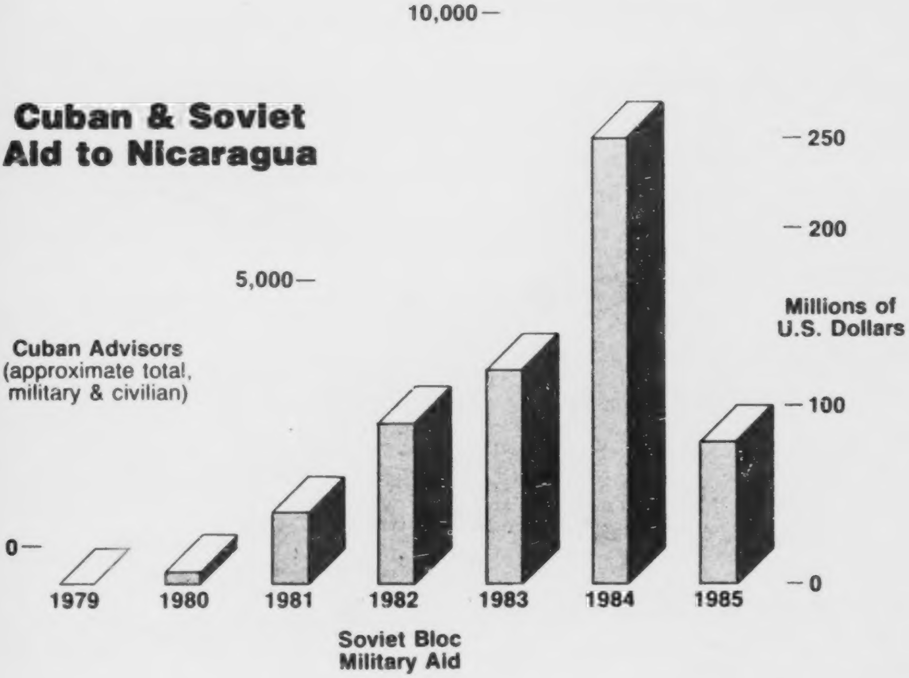


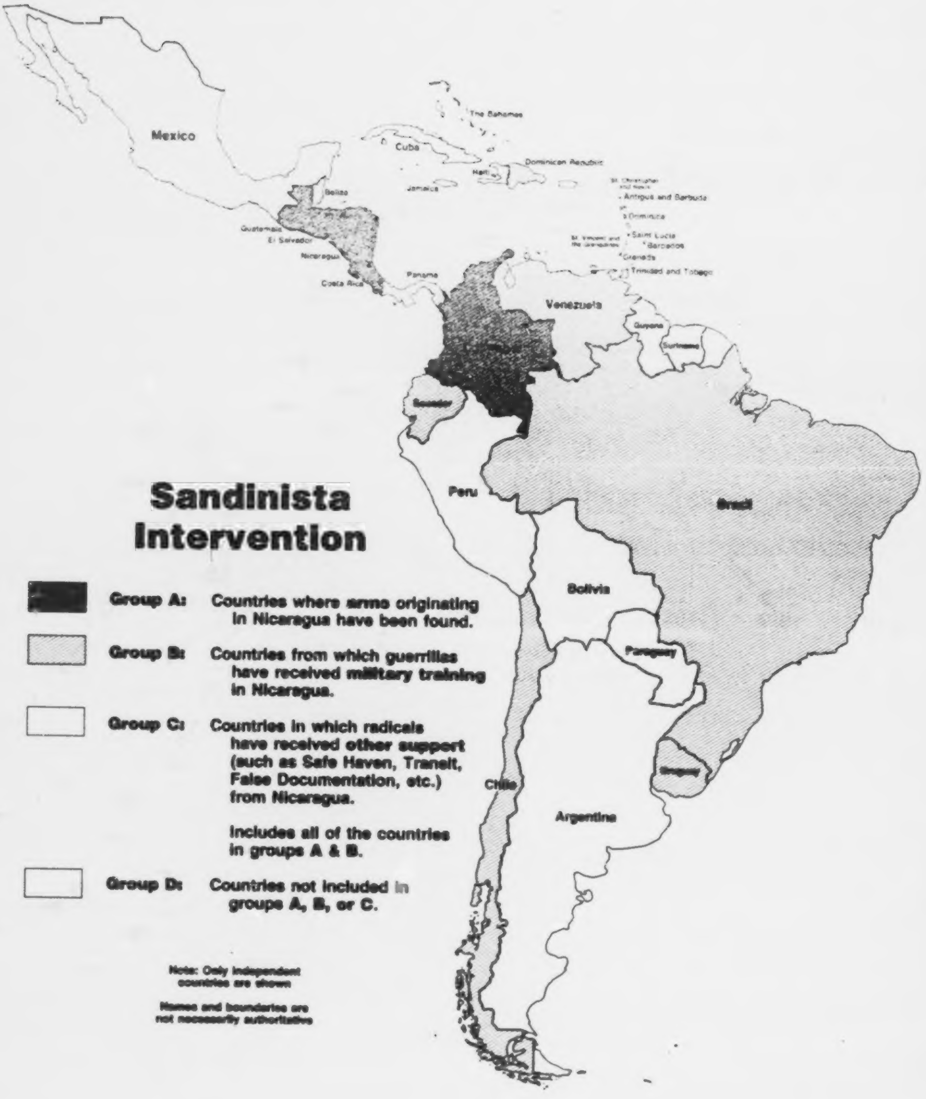
Background of FDN Military Leaders: Late 1985



Total Civilian	**53%**
Total National Guard	**27%**
Total Sandinista	**20%**

Cuban & Soviet Aid to Nicaragua




Mexico
The Bahamas
Cuba
Dominican Republic
Haiti
Jamaica
Belize
Guatemala
El Salvador
Nicaragua
Costa Rica
Panama
St. Christopher and Nevis
Antigua and Barbuda
Dominica
Saint Lucia
St. Vincent and the Grenadines
Barbados
Grenada
Trinidad and Tobago
Venezuela
Guyana
Suriname
Ecuador
Peru
Brazil
Bolivia
Paraguay
Chile
Argentina
Uruguay

Sandinista Intervention

■ **Group A:** Countries where arms originating in Nicaragua have been found.

▨ **Group B:** Countries from which guerrillas have received military training in Nicaragua.

☐ **Group C:** Countries in which radicals have received other support (such as Safe Haven, Transit, False Documentation, etc.) from Nicaragua.

Includes all of the countries in groups A & B.

☐ **Group D:** Countries not included in groups A, B, or C.

Note: Only independent countries are shown

Names and boundaries are not necessarily authoritative

LATIN AMERICA

Mr. **Abrams**. This is a very exciting and marvellous time in Latin American history. We really do have now a sort of constellation of democratic stars that is without historical precedent.

And it is not just that fantastic development of democracy in Central and South America and the Caribbean; but the leaders themselves are more and more taking some very difficult steps to bring economic order and progress to their countries.

We can obviously go into detail later, but if you think of people like the presidents of Brazil, Argentina, and Bolivia, they are taking some politically unpopular and tough moves to bring, for example, hyperinflation under control.

The threats to democracy and stability are also very large, however. We have probably never seen this large a threat from narcotics trafficking. It has a tremendous economic impact and a tremendous political impact.

Columbia is an example of the political impact, where government has to take stock of the "narco-traficantes" as perhaps the most powerful enemy of the survival of democracy in that country.

Secondly, you have got terrorism. Again, Columbia is an example, but there are unfortunately terrorist groups in many countries in Central and South America.

And now you have got something new, this linkage of the terrorist groups and drug traffickers, which is particularly dangerous.

There is, in addition, the challenge of subversion; not just random terrorism, but deliberate subversions from communist groups aided by Cuba, Nicaragua, and extra-hemispheric powers.

So the challenges are very large.

From my point of view, and I think really from the point of view of every American, it would be just a terrible tragedy if we could help preserve stability and democracy in this hemisphere and fail to do so because the aid levels that we were able to come up with were inadequate.

This chart which—can I submit charts for the record, too?

Mr. **Obey**. Sure.

[Note.—Charts attached to statement.]

Mr. **Abrams**. Well, let me just hold it up for a second.

It shows that Latin America constitutes just under 15% of total worldwide military and economic assistance. That is not a very high percentage when you consider that this is the hemisphere we live in. I do not mean to denigrate the importance of any other place on the face of the Earth, but for a number of reasons, including security reasons, I would argue that this area, the Caribbean, Central America, South America, should be of special interest to us, and that therefore these aid levels are not really particularly high as a percentage of global levels.

Nor are we faced with governments which will not take their future into their own hands and bite the bullet on economic policy; nor are we faced with situations where democracy is extremely difficult or impossible. We have democracy in most of these countries.

The question is whether it is possible to maintain it.

So I think we are at a kind of historic turning point. And while it is true that the future primarily depends on what Latins do, not what we do, nevertheless, we have a crucial role to play. And the assistance budget which you have before you, I think, can make an enormously important contribution to the prevalence of democracy and to economic progress in this hemisphere.

So with that, let me turn to my colleagues.

Thank you.

Mr. INK. Mr. Chairman, for a good many years I was involved in domestic programs in the United States. I can well appreciate the task which faces the Congress as well as the President in determining how to weigh different requests for funds.

When I was in the domestic field, however, I always emphasized in my talks, the importance of our international activities to the people of the United States.

Nowhere is that more important, in my view, than in Latin America and the Caribbean.

Secretary Abrams has described the importance of the political and economic stability of this area to the strategic purposes and needs of this country. I would like to underscore the consequences of these countries sinking over time into economic crises and possible future chaos and what that would mean later on in terms of heavier costs to our foreign assistance programs; what it would mean in terms of lost markets and lost U.S. jobs; what it might mean in the way of refugees who might later come to the United States.

I also would stress that I believe not very many of our people in the United States really have sufficient awareness of the consequences of the emergence of a powerful narcotics industry that Secretary Abrams referred to, and the potential linkage between it and the financing of terrorist groups. The consequences are far more serious than just the impact on the economy of these countries. There are more serious impacts in terms of the stability of the governments and the impact on the people here in the United States.

The Latin America and the Caribbean region is a substantial market for U.S. products. The economic recovery of these countries creates the potential of much larger imports of goods from the United States, and a substantially larger number of U.S. jobs.

Our stake in a stable hemisphere, as we see it, requires a continued level of U.S. economic support for several years. I would note Mr. Kemp, talking about the Kissinger Commission, that U.S. economic assistance provided to Central America through fiscal year 1986 is about 20% short of the Kissinger Commission's recommendations.

We also need to take into account that, in fiscal year 1986, the ESF assistance for Latin America and the Caribbean was cut substantially more than Asia, or the Near East, because of the congressional global earmarks. The President's proposed distribution of assistance funds was changed very substantially, and both Africa and Latin America and the Caribbean ended up with a substantially smaller portion of those funds than did other parts of the world.

We have, I think, seen very strong progress on the political front in Latin America and the Caribbean. In the economic area, the progress has, I think, been much more modest. Nevertheless, basically there has been a turnaround, a halt in the deterioration of the economic conditions in this region.

The extent to which progress has been made, however, has been tempered by the continuation of low prices in most commodities that they sell, with the exception of coffee. Certainly, lower sugar and bauxite prices have had tremendous impact in the Caribbean.

Most countries in the region still have, of course, very heavy debt servicing requirements. The amount of capital flow from public and private groups coming into the area, I am told by the economists, is not as high as had been expected.

Many countries—I would say most of the countries, to varying degrees—still suffer from the high costs and inefficiencies of many public sector operations. Many governments have too many employees. Parastatals are highly inefficient, and a number of the countries are now beginning to cut back on the number of parastatals.

The region's institutions, many of them newly emerging in a democratic sense, are nonetheless fragile. They are still highly vulnerable to political and economic instability.

Mr. Chairman, stabilization, of course, is not the end product. As the Kissinger Commission recommended, once the deterioration of the economies has been brought under control we are interested in seeing that the benefits of whatever growth then ensues be spread more widely.

We want to see the problems of rising unemployment rates, and lower living standards, addressed.

We have seen some success in these areas of benefits, particularly with respect to reduction in infant mortality rates. And, there has been rapid implementation of training in many of these countries.

So we have seen very substantial progress on the political front in the last year, and the economic picture is improving. But, there is still a long way to go.

Mr. Chairman, I would be glad to answer any questions. I have with me Mr. Malcolm Butler, my deputy, who is a career officer with AID who served as Mission Director in Peru and Lebanon.

[Statement follows:]

PREPARED STATEMENT OF
DWIGHT A. INK
ASSISTANT ADMINISTRATOR
BUREAU FOR LATIN AMERICA AND THE CARIBBEAN
BEFORE THE
SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

ON
MARCH 18, 1986

Mr. Chairman, I am pleased to be here today to testify on our proposed program for the Latin American and Caribbean (LAC) region. While we have made significant progress in some very important objectives of our program, we have seen less than what we had hoped for in others. Before elaborating on this assessment, I want to underline the importance of the Latin American and Caribbean region to U.S. interests.

U.S. ASSISTANCE TO THE LAC REGION: THE BROADER CONTEXT

In the difficult task of weighing foreign assistance requests against domestic needs, we need to remind ourselves of why assistance programs to Latin America are of direct importance to the people of the United States. The key points regarding the political, economic, and strategic interests of the United States in Latin America and the Caribbean have been covered by the testimony of Elliott Abrams. A.I.D. programs address only some of these issues, but I think it is important to consider our activities against this broader backdrop, which indicates that our citizens have a far greater stake in a stable hemisphere than most Americans realize. For Central America, that stake was fully confirmed in the conclusions of the National Bipartisan Commission on Central America (NBCCA) which recommended greatly increased levels of assistance--recommendations which have been supported by both the Administration and Congress.

PROGRESS AND OBSTACLES: AN OVERVIEW

The Latin American and Caribbean region as a whole made strong progress during 1985 on the political front, and modest progress in most economic areas. Those trends appear to be continuing thus far in 1986, although data are still very limited. Open and fair elections in a half dozen countries have helped strengthen democratic processes and institutions throughout the region. In Haiti, growing demands for popular participation in political processes, as well as economic stresses, led to the fall of a political dynasty whose repressive rule had lasted nearly 30 years.

On the economic front, a number of countries made good progress toward economic stabilization and implementation of market-based policy reforms designed to stimulate private-sector-led economic growth. With the encouragement and support of A.I.D., many countries also took measures to mitigate the effects of the economic crisis on low-income groups and to ensure that the benefits of future economic growth would be broad-based. Both A.I.D. and the governments of many Latin American and Caribbean countries took a number of steps to improve program management so that scarce budget resources could be used more efficiently in support of development objectives. This is an area requiring more sustained vigilance than we have seen in the past.

Despite this general progress, there have been some disappointments and shortfalls. Institutional change is a long-term process, and many of the region's institutions are fragile. Guerrilla violence has not ended, and narcotics trafficking remains a major destructive force in the lives of the region's citizens and of our own. Serious economic problems remain, and full recovery will require several more years of sustained effort on the part of the individual countries, as well as substantial foreign assistance. External factors will continue to have a major impact on conditions in the region, and progress toward recovery is likely to remain uneven.

Among the external factors inhibiting economic recovery are continued low prices for the region's traditional exports, except for coffee; growing protectionism in some industrial countries which could thwart export-led growth strategies; heavy debt servicing requirements, notwithstanding the recent decline in world interest rates; and disappointing levels of new public and private international capital flows.

Internally, most countries in the region still suffer from the high cost of public sector operations. Some ministries are overstaffed, many parastatal enterprises are inefficient, and subsidies which often benefit the rich more than the poor claim too many budgetary resources. Government price controls discourage private enterprise and divert resources to relatively low productivity uses. The heavy cost burden of the public sector in many countries limits the resources available for economic recovery.

A.I.D.'s effectiveness in promoting long-term development has been limited by substantial shortfalls from proposed levels of assistance during Fiscal Year 1.86. In several cases, notably Guatemala and Bolivia, budget constraints have diminished A.I.D.'s ability to support efforts by new governments to take major economic reforms. We may likewise be constrained in our ability to respond to the new situation in Haiti. In other countries, required cutbacks in the level of assistance have made implementation of stabilization and development programs more difficult.

In Central America, for a series of reasons mentioned above, achievement of some of the goals of the National Bipartisan Commission on Central America (NBCCA) will take longer than originally anticipated.

ECONOMIC RECOVERY: PROGRESS AND OBSTACLES

For the LAC region as a whole, including countries with which A.I.D. does not have bilateral programs, economic recovery got under way in 1984. The regional GDP that year grew by 3.2%, or 0.8% per capita, thus reversing the 10% decline in per capita GDP over the three previous years. This recovery was not distributed uniformly, however, because despite this reversal in the regional trend, a majority of individual LAC countries experienced a further decline in per capita GDP in 1984. For the key sub-region of Central America, the recovery during 1984 was slower than the LAC average, with aggregate GDP (excluding Nicaragua) rising by 1.4% and per capita GDP falling by 1.2%.

During 1985 the estimated GDP growth rate for the LAC region fell slightly to 2.8%, or 0.5% per capita, while for Central America GDP growth appears to have been only about 0.5%, or a decline of 2.1% in per capita terms. Recovery in Central America continues to be held back by unsettled political and security conditions, including continued violence, and by the need for additional policy reforms in most countries. In addition, Central America -- as well as the rest of the LAC region -- was affected adversely by the slowdown in the world economy in 1985.

External debt burdens in the LAC region remained heavy during 1985, despite lower interest rates, and prompted growing calls for unconventional forms of debt relief. The slowdown in the growth of the industrial economies kept prices of the region's major commodity exports generally low (though coffee prices rose late in the year) and made it more difficult for the LAC countries to break into new markets with nontraditional export products. Falling petroleum prices provided some relief to oil-importing countries, but placed strains on the region's oil exporters. New public and private international capital flows were inadequate, prompting Secretary of the Treasury Baker, at the joint annual meeting of the International Monetary Fund (IMF) and the World Bank in October 1985, to call for substantial increases in both types of flows. Unless such increases materialize, the economic performance of the LAC region in 1986 is not likely to be much better than it was in 1985, except to the extent made possible by higher coffee prices and further declines in world interest rates. Because the rise in coffee prices was due primarily to weather conditions in Brazil, however, increased export earnings from coffee may be only a one-year bonus. The sharp decline in petroleum prices in the last few months will have a mixed effect, with importing countries benefiting, but exporting countries facing significant declines in foreign exchange earnings.

SOCIAL AND POLITICAL CONCERNS

The economic crisis continued to cause serious social and political strains during 1985, in part because public tolerance wore thin for austerity measures, whether undertaken voluntarily or involuntarily as countries ran low on financial resources. Bolivia's previous government, paralyzed as the economy unraveled, moved elections up by a full year, thus probably avoiding a widely predicted coup. A similar policy paralysis afflicted the outgoing government of Guatemala. Panama's president resigned under pressure, partly because of strong opposition to a stabilization and recovery program he was unable to implement. The failure of previous governments in these countries to implement sound economic programs has only aggravated the underlying structural problems that need to be resolved. This failure has greatly complicated the task of the new Bolivian administration, which has moved quickly to implement a bold economic program, and that of the new Guatemalan government, which also seems prepared to take decisive action.

A different response to the economic crisis was made by the new government of Peru, which announced that it would limit its debt servicing to no more than 10% of its export earnings so that the remainder of its foreign exchange may be applied to imports needed to help reverse the decline in living standards. It remains to be seen whether its other economic policies, still not fully defined, can achieve this reversal.

In Jamaica, the continued deterioration of the world bauxite market swamped the positive effects of the government's stabilization program, and the collapse of Jamaica's incipient recovery contributed to some civil disturbances early in 1985. Dissatisfaction over economic conditions also played a role in the disturbances which toppled the Duvalier regime in Haiti in February 1986.

The countries discussed above, though different in many respects, share two common characteristics. One is the growing public impatience with declining living standards, and the other is political difficulties faced by their governments in responding to economic problems by implementing sound corrective economic measures required to lay the groundwork for economic recovery. It is in the U.S. interest that we help the LAC countries find creative, viable solutions to their problems so that hostile forces will not exploit them in ways that are harmful to their security and ours. Increased U.S. assistance in these and other countries with similar problems can help make the necessary economic adjustments less painful.

Nevertheless, if our assistance is to have a major, lasting impact, the LAC countries themselves must play the leading role in bringing about an economic recovery by implementing appropriate policy reforms, particularly to encourage private-sector activity. We continue to see progress along these lines, but the pace of reform in most countries needs to be accelerated so that rapid and sustained economic recovery can proceed before the stress on elected governments threatens their continued survival.

A year ago we identified a number of key socioeconomic development problems that needed to be addressed in order to achieve a strong, broad-based recovery. Financial disequilibrium, the major short-term problem, has so far been addressed satisfactorily in only a small number of LAC countries. The other problems -- including unemployment and underemployment, external debt burdens, structural barriers to export diversification, and rapid population growth -- are long-term in nature. Progress toward solving them will depend not only on a favorable international economic environment and policy reforms in the LAC countries themselves, but also on the amount of public and private capital flowing into the LAC region. A.I.D.'s focus on spreading the benefits of growth will help ensure that corrective measures have maximum social impact.

U.S. INTERESTS

The United States has major economic interests in the LAC region, whose geographic proximity makes it of key importance to our security. Economically, the LAC countries constitute a major market for our exports. In 1981 they bought $42.1 billion of our products, or 18% of our total exports. But the foreign exchange shortages associated with the economic crisis limited LAC purchases of U.S. goods to $25.7 billion in 1983, costing the United States a large number of jobs in the export sector. Although U.S. exports to the region rose to $29.7 billion in 1984, and an estimated $31.4 billion in 1985, this is still substantially below the 1981 peak, particularly after adjusting for inflation, as seen in the following table:

U.S. Exports to LAC Countries, 1981-1985
(billions of dollars)

	Current Prices	1981 Dollars
1981	42.1	42.1
1982	33.6	31.6
1983	25.7	23.3
1984	29.7	25.8
1985	31.4	26.4

There is considerable potential for expansion of U.S exports to the LAC area, thereby producing more jobs in the United States.

The United States also has significant investments in the LAC region, amounting in 1984 to $28.1 billion, or 52% of all U.S. direct investment in developing countries. The economic crisis in the region has lowered returns on this investment. It has also seriously threatened the financial position of many U.S. banks with loans to LAC countries which have been unable to keep current on debt servicing. Another major impact of the region's economic difficulties has been an increase in illegal migration to the United States. In addition, economic hardships have pushed more people into narcotics trafficking, which likewise has a significant impact on our society.

Our foremost strategic objective in the LAC region is the presence of stable, friendly, democratic governments which provide a climate in which our major security interests can be protected. These include access to petroleum, to other industrial raw materials, and to the unimpeded use of the sea lanes adjacent to North America and the Panama Canal. The region is also important to our efforts to limit the spread of nuclear weapons, to stop the flow of illegal drugs into the United States, to curtail the operations of international terrorist groups, and to prevent the seizure of power by hostile forces. I am particularly concerned about the potential danger that funds from the extremely lucrative trade in illegal drugs will support future terrorist activities throughout the Western Hemisphere, including the United States.

The LAC region is a major focus of our concern for improving respect for human rights and strengthening democratic institutions. The creation of eight newly independent nations in the Caribbean Basin since 1974 has heightened that concern, and has made it more important that we be able to collaborate with the countries of the region on issues arising in hemispheric and international organizations and meetings. We have also played an active role in encouraging and supporting the adoption of civilian, democratically elected governments in the region. The prolonged economic crisis in the LAC countries is a potential threat to the expansion and consolidation of democratic processes in a number of countries. Possible economic collapses in some of these countries could send large numbers of refugees fleeing to the United States and also could seriously affect our financial system.

Our economic assistance program seeks to help prevent this from happening by stimulating a private-sector-led economic recovery whose benefits will extend to the entire population, thus weakening the appeal of radical, undemocratic elements, including the guerrilla groups now seeking to destabilize the governments of a number of LAC countries.

A.I.D.'s STRATEGY AND GOALS

A.I.D.'s strategy for addressing the LAC region's development problems focuses on four broad areas: (1) short-term economic stabilization, (2) basic structural reforms leading to sustained economic growth, (3) a wider sharing of the benefits of growth, and (4) the strengthening of democratic institutions and respect for human rights. As a growth-with-equity strategy, it is largely targeted on the needs of less advantaged populations, particularly by emphasizing productive employment opportunities as well as greater access to health care, education, and social services. The strategy stresses the role of the private sector as the main engine of development, but it also seeks to improve an important but limited role of the public sector by encouraging policy reforms which increase economic and political freedoms and management improvements which reduce the costs of public services. To improve the efficiency of our own activities and contribute to the necessary reduction in the U.S. budget deficit, A.I.D. is subjecting proposed projects to more intensive review and will be scaling back expenditures in some areas.

IMPLEMENTATION PROGRESS

1. Stabilization. Economic stabilization -- reducing fiscal and balance-of-payments deficits and bringing inflationary pressures under control -- is not an end in itself but rather an essential requirement for private-investment-led growth. A.I.D. has encouraged and underwritten stabilization efforts through programs supported by Economic Support Fund (ESF) resources, which help cushion declines in economic activity while countries take steps to lay the groundwork for economic recovery.

A key objective of our support for stabilization efforts is that the LAC countries be able to manage their external sectors on a current basis by eliminating arrearages and the need for further debt reschedulings and by restoring government fiscal equilibrium. Countries which have made good progress toward meeting this objective include Belize, Costa Rica, the Dominican Republic, and Ecuador. Elsewhere the record was mixed last year, with some countries making slow progress while others allowed their fiscal and balance-of-payments deficits to become worse, thus making stabilization all the more difficult to achieve.

Some LAC countries may need more than another year to complete their stabilization objectives. The new Bolivian government, for example, despite having implemented a bold and very promising stabilization program, and having reduced the annual inflation rate from about 20,000% to 30%-40% in less than one year, is not likely to be able to complete the stabilization process in 1986, given the extent of the economic deterioration that occurred under its predecessor. In other countries, however, completion of the stabilization process during 1986, or at least 1987, is a feasible goal provided that the necessary policy reforms are undertaken. Significant amounts of stabilization assistance in FY 1987 will be necessary to prevent a further general decline in living standards. If this assistance is not forthcoming, the political stresses which result from sustained austerity measures are likely to lead to destablizing relaxation or reversal of stabilization measures.

2. Long-Term Growth. Structural reforms are needed in most LAC countries to achieve sustained economic growth within an international environment that differs sharply from that of the 1960s and 1970s. Achievement of rapid and sustained growth

will depend largely on the success of countries in reorienting their development strategies away from import substitution and toward exports to nonregional markets.

Our economists advise me that a substantial body of research has shown that a strategy with such an outward orientation will result not only in faster economic growth but also in more job creation and a more equitable pattern of growth by encouraging labor-intensive patterns of development. However, I should stress that it takes time for these policies to produce meaningful results.

Progress toward export diversification was strong during 1984, although this is also a process that takes time to have a meaningful impact on the economy. The A.I.D.-assisted countries benefiting from President Reagan's Caribbean Basin Initiative (CBI), for example, increased their exports of manufactured goods to the United States by 27%. Growth during 1985 slowed to 13%, due in large part to the slowdown of the U.S. economy, but the CBI countries still performed better than the rest of Latin America. Moreover, countries which had made good progress in implementing structural reforms -- including Belize, Costa Rica, the Dominican Republic, and Jamaica -- continued to show strong growth in exports to the U.S. market in 1985. The following table shows that total manufactured exports to the United States from A.I.D.-assisted CBI beneficiaries exceeded $1.5 billion in 1985:

Exports of Manufactures to the United States
by A.I.D.-Assisted CBI Beneficiaries
(millions of dollars)

	1983	1984	1985	% Increase, 1983-85
Central America	289	372	439	52.2%
E. Caribbean	212	270	239	12.7%
Other Caribbean	568	717	862	51.6%
Total	1,069	1,359	1,540	44.1%

An ongoing LAC Bureau review of A.I.D.'s role in supporting the CBI is finding that the Initiative has increased nontraditional exports from the region and investment in targeted growth areas. A.I.D. has authorized more than 90 projects and some $700 million in support of the CBI during the FY 1982-85 period. Although it is difficult to determine precise linkages between the CBI and new exports and investments, preliminary data suggest that more than 260 new export-oriented investments have been stimulated in the Basin, with 210 of these creating more than 30,000 new jobs. Some of these jobs can be linked directly with the CBI, but the really significant impact of the CBI will occur over the long run.

One result of our review of the implementation of the CBI is that A.I.D. will further strengthen its collaborative relationship with other Federal agencies in pursuit of CBI objectives.

The main elements of our strategy for achieving export-led growth and the associated increases in income and employment are:

-- continuing our dialogue with cooperating countries on needed policy reforms and using our assistance to encourage and support appropriate structural adjustment;

-- supporting the greater commercialization of agriculture, the sector employing the greatest number of people, particularly through diversification and by improving access by small farmers to land, credit, and other key production inputs;

-- assisting countries in preserving and enhancing their natural resource base, and thus the long-run productive potential of their agricultural sectors, through environmental protection programs;

-- increasing the availability of production credit for agriculture and industry, particularly small industry, and for exporting;

-- providing technical assistance and training for small business operators;

-- assisting investment and export promotion and strengthening private-sector organizations;

-- assisting in the development of free zones, industrial parks, and other mechanisms which simplify infrastructure and administrative problems facing private enterpreneurs; and

-- financing infrastructure construction and improvements, especially for stimulating small-farmer production.

3. Spreading the Benefits of Growth. An export-oriented growth strategy can promote more equitable development through job creation and the generation of revenues needed to extend the coverage of social services. Nevertheless, targeted programs also are needed to ensure that the benefits of growth will be widespread. Such programs include the use of cost-recovery measures in the provision of public services and incentives for greater private-sector activities in such fields as health and family planning services. More efficient operation of public services can also help spread their coverage, a factor which is particularly important in meeting tight budgets. Opportunities for small farmers and other poor rural families can be increased through greater access to land, credit, and other productive resources and the elimination of price controls and other disincentives to production.

Under the proposed funding levels, A.I.D. will continue to promote a more equitable pattern of development by supporting programs designed to:

-- provide access to primary education for at least 90% of all school-age children, male and female, in those A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, El Salvador, and Guatemala);

-- expand access to family planning information, particularly through private institutions, to help bring about a reduction of the regional population growth rate from the 1982 level of 2.3% to 1.9% by 1988;

-- improve the access of poor rural families to land through support for settlement programs, legal reforms to provide secure land titles, and financing for land purchases;

-- increase the availability of credit and technical assistance to small business operators;

-- provide better housing for low- and moderate-income families through technical assistance, previously authorized Housing Guaranty loans, and other activities;

-- assist displaced persons through provision of health services, educational opportunities, and productive employment; and

-- support narcotics awareness programs in order to help combat the insidious effects of narcotics production and use on the quality of life in the region and in the United States, and to reduce the threat that narcotics trafficking will begin to fund terrorist groups.

4. Democratic Institutions and Human Rights. Economic growth will best benefit the citizens of Latin America and the Caribbean and support U.S. interests in the region if it occurs in an environment in which governments permit their people to participate freely in local and national political processes; to form labor unions, cooperatives, and other voluntary organizations; and to have recourse to a judicial system that will administer justice fairly and speedily. Although the U.S. Government cannot dictate to other governments how they should structure their political institutions and processes, we can provide our moral and financial support to those countries upholding democratic institutions and respecting human rights. A key element in U.S. economic assistance decisions in each LAC country will be the degree of commitment of that country to free elections, independence of the judiciary, and respect for individual rights.

We are encouraged by the progress along these lines made in the LAC region. During 1985 presidential elections were held in Bolivia, Peru, Honduras, and Guatemala, and parlimentary elections were held in Dominica. Costa Rica held presidential elections in early 1986. There is widespread agreement that the electoral processes were in all cases open and fair. Progress toward democratization and an improved human rights environment also occurred in most other A.I.D.-assisted countries. In Haiti the government's oppressive policies sparked civil unrest that led to its downfall in February 1986, and the provisional government, although not particularly strong, has announced that it will provide a framework for political parties and will schedule the first presidential elections in nearly 30 years.

A.I.D. will continue seeking to strengthen the administration of justice through technical assistance, training, and material support for court systems, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools, and bar associations. A.I.D. will also continue providing assistance to improve the administration of elections. In addition, A.I.D. activities with a large number of private and voluntary agencies will support the development of democratic institutions and processes by providing assistance to labor unions, marketing and credit cooperatives, women's organizations, and other participatory groups.

The process of democratization in the LAC region is being further supported by a major new training initiative, the Caribbean and Latin American Scholarship Program (CLASP), which will provide both short-term and long-term scholarships for study in the United States and in the region itself to approximately 10,000 individuals. CLASP consists of three separate projects, one for Central America, one for the Caribbean and South America, and a new Caribbean Training Initiative. By far the largest is the Central American Peace Scholarships project (CAPS) under which approximately 7,063 Peace Scholars will be trained between FY 1985 and FY 1989 in response to the recommendation of the National Bipartisan Commission on Central America (NBCCA) that more Central Americans be provided training opportunities in the United States. An additional 3,000 or so participants will be funded under United States Information Agency (USIA) programs, bringing the total to more than 10,000.

Training under scholarship programs will focus on priority economic, social, and political development needs, and will target disadvantaged groups who previously have lacked access to such training. First-year implementation of the CAPS project was very successful, with the project exceeding by 350 its target of 1,200 students trained during FY 1985. The new Caribbean project is designed to triple the annual number of A.I.D.-supported scholarships in the Caribbean to approximately 1,500 by FY 1988. Participant training is regarded as one of the best investments we can make in the future stability of these countries.

IMPROVING MANAGEMENT

I would like to discuss briefly now our efforts to improve the management of our programs. In my confirmation hearings last October, I said that I strongly supported the efforts of A.I.D. Administrator McPherson and Deputy Administrator Morris in this regard. I would like to report to you what we have done in recent months in the LAC area:

-- clarified goals and objectives to better respond to the Agency's legislative mandate, our policies and priorities, and country strategic considerations, and to better link program and project activities to these goals and objectives;

-- established a management-by-objectives system to implement the management strategy outlined by the Administrator in his 1985 State of the Agency address and to respond to the concepts embodied in Section 621A of the Foreign Assistance Act. The first elements of this system are now in place, but additional work will be required to make it fully effective;

-- strengthened project cost analysis, including the adoption of additional measures to analyze and contain costs in the participant training program, with similar measures soon to be developed for the health program;

-- increased our stocktaking assessments of program progress or lack of progress;

-- delegated greater project approval authority to the field so that field managers can be more responsible and accountable for program and project design and implementation; and

-- begun an effort to reduce the complexity of project design to decrease costs and to avoid overtaxing the technical and managerial resources of overseas missions and the governments with which they work.

We also intend to:

-- reduce time-consuming reporting requirements for A.I.D. missions, thus freeing them to devote greater attention to program and project monitoring and accountability.

-- place more emphasis on phasing out future institutional support of organizations which have received A.I.D. funding over a period of years.

FY 1987 PROGRAM SUMMARY

In closing, Mr. Chairman, let me briefly summarize our program request for Fiscal Year 1987. For the Latin American and Caribbean region as a whole, A.I.D. is requesting economic assistance totalling $1,662.7 million dollars, including:

-- $945.0 million in Economic Support Funds;
-- $472.3 million in Development Assistance; and
-- $245.4 million in P.L.-480 commodities.

By sub-region, the breakdown is:

-- Central America: $1,054.8 million, or 63%;
-- The Caribbean: $386.4 million, or 23%;
-- South America: $185.4 million, or 11%; and
-- Regional Programs: $36.1 million, or 2%.

Thank you.

Mr. **Obey**. Thank you.

General.

General **Gast**. Mr. Chairman, I would like to submit a longer statement for the record and make a few comments from some charts, if I may, please.

Mr. **Obey**. Sure.

[Statement follows:]

STATEMENT OF

LIEUTENANT GENERAL PHILIP C. GAST, USAF

DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

BEFORE THE

SUBCOMMITTEE ON FOREIGN OPERATIONS

HOUSE APPROPRIATIONS COMMITTEE

18 MARCH 1986

IN SUPPORT OF THE FY1987 SECURITY ASSISTANCE PROGRAM

FOR LATIN AMERICA

EMBARGOED UNTIL TIME OF DELIVERY

CENTAM BRIEFING

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE.

THANK YOU FOR THE OPPORTUNITY TO ADDRESS YOU TODAY ABOUT U.S. SECURITY ASSISTANCE PROGRAMS TO THE LATIN AMERICAN REGION.

CHART #1 REGIONAL MAP

WE THINK OF THE REGION, DISPLAYED ON THE CHART BEFORE YOU NOW, AS DIVIDED INTO THREE PARTS, CENTRAL AMERICA, SOUTH AMERICA, AND THE CARIBBEAN. WE SHALL ADDRESS THE PROGRAMS IN ALL OF THESE AREAS. FIRST, HOWEVER, IT IS IMPORTANT TO REVIEW THE REGION AS A WHOLE -- THE MAJOR CHALLENGES TO THE PEACE AND THE PROGRESS WE HAVE MADE IN PROMOTING DEMOCRACY.

THE CHALLENGES AS SHOWN BY THE CIRCLES IN RED ARE CUBA AND NICARAGUA AND THEIR DESIRE TO SPREAD THEIR KIND OF REVOLUTION, LEADING TO THEIR TOTALITARIAN CONCEPT OF GOVERNMENT, THROUGHOUT THE REGION. IT IS NATURAL THAT THEY SHOULD SEEK THE HELP OF THE SOVIET UNION. THEY OPPOSE OUR MOST BASIC VALUES. IT IS ALSO NATURAL FOR THE SOVIETS TO SEEK TO ANCHOR THEMSELVES IN THESE COUNTRIES BECAUSE OF THE MILITARY AND POLITICAL ADVANTAGES THEY GAIN CLOSE TO OUR BORDERS. IN ADDITION TO NICARAGUA, OF GREATEST CONCERN TO THE UNITED STATES ARE THE COMMUNIST-LED ORGANIZATIONS IN CENTRAL AMERICA, ESPECIALLY EL SALVADOR. FINALLY, WE FACE THE GRAVE PROBLEM OF ILLEGAL DRUG TRAFFIC AND

ASSOCIATED TERRORISM AND OTHER FORMS OF VIOLENCE THROUGHOUT THE AREA, BUT ESPECIALLY IN THE ANDEAN REGION.

CHART #2 U.S. SECURITY ASSISTANCE - ECONOMIC AND MILITARY

AS SERIOUS AS THE CHALLENGES ARE, U.S. ACCOMPLISHMENTS MATCH AND IN MANY INSTANCES OVERSHADOW THEM. TO SUSTAIN THESE ACCOMPLISHMENTS AND THE UNDERLYING PROGRAMS THAT HAVE HELPED ACHIEVE THEM, WE ARE REQUESTING CONGRESSIONAL SUPPORT FOR OUR BUDGET REQUEST FOR FY 87. THE CHART BEFORE YOU NOW SHOWS OUR WORLDWIDE APPROACH TO SECURITY ASSISTANCE, WITH THE GREEN REPRESENTING ECONOMIC ASSISTANCE AND THE RED MILITARY ASSISTANCE. CONGRESS HAS DEBATED FULLY THE ROLE OF SECURITY ASSISTANCE AND ASSOCIATED ECONOMIC ASSISTANCE IN THE CENTRAL AMERICA AND CARIBBEAN REGIONS. THE ADMINISTRATION'S CARIBBEAN BASIN INITIATIVE (CBI) LED THE DEBATE. THE KISSINGER COMMISSION'S RECOMMENDATIONS TO ACHIEVE PEACE, STABILITY AND PROSPERITY IN CENTRAL AMERICA FOLLOWED. THESE RECOMMENDATIONS ARE SLOWLY RECEIVING NEEDED FUNDING AND LEGISLATIVE IMPLEMENTATION. THE ADMINISTRATION'S PROGRAMS AND THE TERMS OF CONGRESSIONAL SUPPORT ARE NOW WELL-DEFINED AND PERMIT A CONTINUED AND SERIOUS EFFORT TO SOLVE THE REGION'S PROBLEMS. YOU SEE FROM THIS CHART THAT THE U.S. EMPHASIS IN LATIN AMERICA IS HEAVILY ON ECONOMIC ASSISTANCE. THE MILITARY SHIELD IS A CRUCIAL ELEMENT, HOWEVER, AND CANNOT BE REMOVED WITHOUT IMPERILING HARD-WON DEMOCRATIC AND ECONOMIC PROGRESS.

CHART #3 ACCOMPLISHMENTS

THE LINKAGE BETWEEN FOREIGN ASSISTANCE AND U.S. NATIONAL INTERESTS -- AND BETWEEN DEMOCRACY AND ECONOMIC OPPORTUNITY -- HAS NOWHERE BEEN BETTER ILLUSTRATED THAN IN LATIN AMERICA. THE LAST FIVE YEARS HAVE SHOWN REMARKABLY POSITIVE DEMOCRATIC DEVELOPMENTS AND THE REJECTION BY THE MAJORITY OF PEOPLE OF THE TOTALITARIAN LEFT AND RIGHT. POLITICAL, ECONOMIC AND BASIC SECURITY SECTORS HAVE ALL SHOWN IMPROVEMENT.

PREVIOUSLY THE REGION WAS WRACKED WITH INTERNAL VIOLENCE, ESPECIALLY IN EL SALVADOR. MILITARY REGIMES WERE THE NORM. TOTALITARIAN SUBVERSION AND WARFARE WERE SPREADING. TODAY WE SEE THE BURGEONING OF DEMOCRACY THROUGHOUT THE REGION. INTERNAL VIOLENCE, WHILE STILL A SEVERE PROBLEM, IS ON THE DECLINE. THE ECONOMIC PROBLEMS OF THE PAST SEEMED OVERWHELMING. TODAY THE DETERIORATION HAS BEEN HALTED IN PART BECAUSE OF OUR AID AND INFLUENCE, WHICH COMPLEMENT THE EFFORTS OF THE LOCAL GOVERNMENTS. THE DEBT PROBLEM, WHILE STILL A CHALLENGE, IS BEING ADDRESSED. IN THE AREA OF BASIC SECURITY, WE PREVIOUSLY FOUND EL SALVADOR UNDER SIEGE WITH VIOLENCE FROM ALL QUARTERS INCREASING AND SPREADING IN A SEEMINGLY UNSTOPPABLE WAR. TODAY, THE WAR HAS BEEN TURNED AROUND, AND THE PEOPLE OF EL SALVADOR HAVE HEROICALLY EMBRACED DEMOCRACY UNDER THE LEADERSHIP OF PRESIDENT DUARTE. WE CAN JUSTLY SHARE THE PRIDE OF THE PEOPLE OF LATIN AMERICA IN THESE ACCOMPLISHMENTS. YET, DEMOCRACY IS STILL A FRAGILE PLANT THAT MUST

BE NURTURED. CONTINUING TO WORK WITH THESE COUNTRIES TO MAINTAIN PROFESSIONAL MILITARY FORCES WHICH TAKE PRIDE IN THEIR ROLE AS THE GUARDIANS OF DEMOCRATIC INSTITUTIONS IS A CRUCIAL CHALLENGE FOR THE U.S TODAY.

CHART #4 FY 87 REQUEST

DESPITE THE CONCERNS FOR DEFICIT REDUCTION SHARED BY EVERY SEGMENT IN AMERICAN SOCIETY AND THE U.S. GOVERNMENT, WE CANNOT AFFORD TO LESSEN OUR EFFORTS AND OUR CONTRIBUTIONS TOWARD PROGRESS IN ESTABLISHING PEACE AND DEMOCRACY IN LATIN AMERICA. IF WE DO NOT SUSTAIN OUR EFFORTS, WE WILL GRAVELY RISK THE GAINS MADE BY THE PEOPLE AND BY DEMOCRATIC GOVERNMENTS IN THE REGION. THIS CHART SHOWS OUR FY 87 REQUEST FOR LATIN AMERICA IN WORLDWIDE PERSPECTIVE. NOTE THE PREPONDERANCE OF MAP GRANTS AND CONCESSIONAL CREDITS, WHICH RESPOND TO ECONOMIC NEEDS OF THE COUNTRIES OF THE REGION. IT CAN BE ARGUED THAT, IN FACT, WE PAY VERY LITTLE FOR THE ACHIEVEMENTS WE HAVE SEEN. CENTRAL AMERICA REPRESENTS ONLY 3.6 PERCENT OF OUR WORLDWIDE TOTAL, SOUTH AMERICA REPRESENTS 1.0 PERCENT AND THE CARIBBEAN A MERE 0.4 PERCENT. THE TOTAL REQUEST FOR LATIN AMERICA INCLUDES ABOUT $1.66 BILLION IN ECONOMIC ASSISTANCE FUNDS, AND SOME $360 MILLION FOR FMS CREDIT, MAP AND IMET, A RATIO OF 4.6 TO 1 IN FAVOR OF ECONOMIC ASSISTANCE.

CENTRAL AMERICA IS CRITICAL TO U.S. STRATEGIC INTERESTS. WE ARE CONCERNED ABOUT THE PRESENT AND FUTURE DEFENSE OF THE PANAMA

CANAL, A VITAL LINK IN THE USE OF OUR SEA LANES FOR THE DEFENSE OF EUROPE AND PROTECTION OF U.S SECURITY INTERESTS IN THE PACIFIC. ON THE OTHER HAND OUR STRATEGY FOR THE STABILITY AND DEMOCRATIC POLITICAL ORIENTATION OF CENTRAL AMERICA INVOLVES ALL FRIENDLY COUNTRIES THERE, AND IS DESIGNED TO COUNTER SOVIET EFFORTS IN CUBA AND NICARAGUA AND EFFORTS BY THESE COUNTRIES TO PROMOTE INSTABILITY.

U.S. ASSISTANCE PROGRAMS, BOTH MILITARY AND ECONOMIC, ARE AIMED PRIMARILY AT SUBVERSIVE ACTIVITIES LARGELY INSPIRED BY CUBA AND NICARAGUA. THE CHANGE IN GUERRILLA TACTICS IN EL SALVADOR, A RETURN TO TERRORIST TYPE ACTIVITIES AND SMALL UNIT OPERATIONS, IS INDICATIVE OF THE FRUSTRATION OF THE SUBVERSIVES AND THE SUCCESS OF OUR PROGRAMS THERE. CLEARLY, THESE PROGRAMS MUST BE SUSTAINED IF WE ARE TO CONTINUE THE SUCCESS AGAINST THESE SUBVERSIVE ELEMENTS.

OUR PRIMARY EFFORTS IN THE CARIBBEAN ISLANDS WILL BE TO COMBAT NARCOTICS TRAFFICKING AND ILLEGAL IMMIGRATION THROUGH PROVISION OF, SUPPORT TO, OR TRAINING ON, SURVEILLANCE EQUIPMENT SUCH AS PATROL BOATS AND HELICOPTERS. THIS EQUIPMENT AND TRAINING WILL HELP PRECLUDE THE KIND OF CUBAN ADVENTURISM WHICH LED TO THE CRISIS IN GRENADA AND, IN GENERAL WILL HELP PROTECT THE SOVEREIGNTY OF ALL THE ISLAND NATIONS.

ADDITIONALLY, OUR SECURITY ASSISTANCE PROGRAM TO HAITI WILL BE DIRECTED TOWARD ASSISTING A PEACEFUL TRANSITION TO A DEMOCRATIC SOCIETY IN THAT COUNTRY. ITEMS SUCH AS COMMAND, CONTROL AND COMMUNICATIONS WITHIN THEIR SECURITY FORCE WILL BE EMPHASIZED ALONG WITH HUMAN RIGHTS.

THE IMET FUNDING FOR THESE COUNTRIES IS PARTICULARLY IMPORTANT SINCE IT PROVIDES THEM BOTH WITH PROFESSIONAL MILITARY TRAINING WITH EMPHASIS ON RESPECT FOR HUMAN RIGHTS AND A FIRST HAND KNOWLEDGE OF HOW OUR SOCIETY WORKS. THIS IS ONE OF OUR MOST IMPORTANT HIGH PAYOFF PROGRAMS, WHICH HAS ENJOYED CONGRESSIONAL SUPPORT, BUT HAS SUFFERED DISPROPORTIONATE CUTS.

FOR A MODEST SECURITY ASSISTANCE INVESTMENT, WE CAN FOSTER CONTINUED DEMOCRATIC GROWTH IN THE ISLANDS, AND PROVIDE THE SECURITY NECESSARY FOR THEIR ECONOMIES TO GROW.

OUR REQUEST FOR SECURITY ASSISTANCE FUNDING TO SOUTH AMERICA IS TO SUPPORT THE IMPORTANT PROGRAMS WHICH ADDRESS TERRORISM, SUBVERSION AND NARCO-TRAFFICKING. WE HAVE NOT PROVIDED SOUTH AMERICA WITH LARGE SECURITY ASSISTANCE FUNDING IN THE PAST TEN YEARS BECAUSE OF COMPLEX HUMAN RIGHTS SITUATIONS AND THE STABLE SECURITY SITUATIONS THERE. THE PERIOD HAS SEEN A REVIVAL OF DEMOCRATIC GOVERNMENTS IN THE HEMISPHERE. NEARLY ALL THE MAJOR COUNTRIES HAVE MOVED AWAY FROM MILITARY GOVERNMENTS TO DEMOCRATIC INSTITUTIONS. IT REMAINS IMPORTANT TO THE UNITED

STATES TO PROMOTE THESE DEMOCRATIC GOVERNMENTS WITH LIMITED SECURITY ASSISTANCE TO SUPPORT THEIR MILITARY'S PROFESSIONAL PURSUITS. FURTHER, THESE DEVELOPING DEMOCRATIC INSTITUTIONS REQUIRE SECURITY ASSISTANCE AGAINST THE SURGING TIDE OF TERRORISM AND OTHER VIOLENCE ASSOCIATED WITH THE TRAFFIC IN ILLEGAL DRUGS.

CHART #5 LATIN AMERICA SECURITY ASSISTANCE LEVELS (SELECTED)

THIS CHART SHOWS THE REQUESTED FY 87 FUNDING LEVELS FOR SOME OF LARGER PROGRAMS IN LATIN AMERICA. WE HAVE SEPARATED MILITARY AND ECONOMIC ASSISTANCE TO SHOW THE RELATIVE EMPHASIS OUR PROGRAMS PUT ON THE ECONOMIC SIDE. FOR THE SAKE OF REALISM, WE HAVE NOT SEPARATED ESF FROM OTHER FORMS OF ECONOMIC ASSISTANCE WHICH INCLUDE DEVELOPMENTAL ASSISTANCE AND PL480 FUNDS.

EL SALVADOR

SIMILAR TO FY 86, EL SALVADOR HAS NO REQUIREMENTS FOR NEW TYPES OF EQUIPMENT. APPROXIMATELY $136 MILLION IS THE MINIMUM REQUIRED TO ENABLE THE EL SALVADORAN GOVERNMENT AND ITS PEOPLE TO TAKE THE WAR TO THE SUBVERSIVES, PROTECT THE PEOPLE AND THE ECONOMY, AND BRING PEACE. IT WILL RESULT IN AN IMPORTANT BUT MODEST GROWTH IN THEIR FORCE STRUCTURE AND SOME EQUIPMENT INCREASES, SUCH AS APPROXIMATELY 8-12 HELICOPTERS, A FEW LIGHT HOWITZERS, ADDITIONAL TRUCKS, AMBULANCES AND SMALL PATROL BOATS. PRIMARY FOCUS WILL BE ON MAINTENANCE SUPPORT AND SUSTAINMENT OF

EXISTING SYSTEMS TO ENABLE THE MILITARY TO BEAT THE SUBVERSIVES AND THE DEFEAT ATTEMPTS TO RULE BY THE GUN. THIS WILL THEREBY SUPPORT PRESIDENT DUARTE'S EFFORT TO BRING PEACE THROUGH RECONCILIATION.

THERE WILL ALSO BE INCREASED EMPHASIS ON CIVIC ACTION PROJECTS TO PROVIDE MEDICINE, CLOTHING AND BLANKETS TO SALVADORANS LIVING IN WAR-TORN VILLAGES. BECAUSE OF ITS IMPORTANCE I SHALL RETURN TO A MORE DETAILED DISCUSSION OF EL SALVADOR IN A FEW MOMENTS.

BELIZE

BELIZE WOULD USE THE MAP FUNDS REQUESTED TO COMPLETE THE ACQUISITION OF SMALL ARMS, UNIFORMS, BOOTS, INDIVIDUAL EQUIPMENT, RADIOS, AND AMMUNITION NEEDED FOR AN ADDITIONAL COMPANY-SIZED UNIT IN THE BELIZEAN DEFENSE FORCES, TO REPLACE OBSOLESCENT VEHICLES, AND FOR SPARE PARTS. THIS PROGRAM WILL SUPPLEMENT BRITISH EFFORTS TO HELP THE ARMED FORCES MAINTAIN INTERNAL STABILITY AND SUPPRESS NARCOTICS TRAFFICKING.

COSTA RICA

COSTA RICA DOES NOT HAVE AN ARMY, BUT THEY DO HAVE A PUBLIC SECURITY FORCE WHICH MUST MAINTAIN THE SECURITY OF BORDER AREAS AS WELL AS SUPPORTING INTERNAL PUBLIC ORDER. THEY NEED ONLY ABOUT $3.1 MILLION IN MAP AND $250 THOUSAND IN IMET THIS YEAR, BUT IT IS URGENTLY REQUIRED. THEY FACE NICARAGUAN BORDER INCURSIONS AND OTHER PRESSURES.

THE LIMITED MAP FUNDS REQUESTED FOR COSTA RICA WILL BE USED TO EQUIP UNITS WITH SMALL ARMS AND PERSONAL EQUIPMENT, FOR SPARE PARTS AND OTHER LOGISTIC SUPPORT FOR EQUIPMENT ACQUIRED EARLIER, AND FOR TRAINING. THE PROGRAM WILL HELP SUSTAIN IMPROVED CAPABILITIES OF THE PUBLIC SECURITY FORCE TO DETER AGGRESSION AND COUNTER TERRORISM.

GUATEMALA

FOR GUATEMALA WE HAVE REQUESTED $10 MILLION IN MAP FUNDS . THIS REQUEST IS MADE IN RECOGNITION OF POSITIVE PROGRESS BY THE GOVERNMENT OF GUATEMALA TOWARDS A DEMOCRATIC PROCESS AS INDICATED BY RECENT ELECTIONS WHICH HAVE PLACED A CIVILIAN GOVERNMENT IN POWER. OBLIGATION OF THESE FUNDS WOULD BE DEPENDENT UPON ITS PRESIDENT'S REQUEST, AND WOULD SUPPORT CONTAINMENT OF SUBVERSION AND IMPROVE THE MOBILITY OF THE ARMED FORCES BY PERMITTING PURCHASE OF SPARE PARTS FOR EXISTING EQUIPMENT. ALSO, CONTEMPLATED IS THE PURCHASE OF ENGINEERING/CONSTRUCTION EQUIPMENT AND MOBILE MEDICAL EQUIPMENT.

HONDURAS

HONDURAS HAS MADE SIGNIFICANT STRIDES TOWARD SUSTAINED DEMOCRACY, AND HAS SUPPORTED U.S. POLICY IN THE REGION, BUT IS THREATENED GREATLY AND INCREASINGLY BY NICARAGUA. HER ARMED FORCES HAVE BEEN MODERNIZED TO A SMALL DEGREE. HONDURAS IS A FRIEND THAT MUST BE SUPPORTED. U.S. SECURITY ASSISTANCE PROGRAMS

FOR HONDURAS ARE INTENDED TO PROVIDE AN EFFECTIVE DETERRENT BY STRENGTHENING NATIONAL DEFENSE CAPABILITIES. MAP FUNDS WILL BE USED FOR PURCHASING EQUIPMENT FOR A COMMUNICATIONS BATTALION AND AIR DEFENSE WEAPONS FOR INFANTRY ON THE NICARAGUAN BORDER. MAP ALSO WILL ALLOW CONTINUED MOBILITY IMPROVEMENT THROUGH THE PURCHASE OF HELICOPTERS, TRUCKS, SPARE PARTS, FUEL, AMMUNITION AND LOGISTICAL SUPPORT. IMPROVED TRAINING AND COMMUNICATIONS FACILITIES AND WEAPONRY FOR COASTAL, PATROL CRAFT WILL ENHANCE HONDURAS' ABILITY TO RESPOND EFFECTIVELY TO EXTERNALLY-SUPPORTED TERRORISM OR FORMS OF VIOLENCE.

PANAMA

PANAMA WILL CONTINUE THE FORCE DEVELOPMENT PLAN IMPLEMENTED EARLIER TO ACHIEVE A BRIGADE-SIZED DEFENSE FORCE WHICH WILL BE ABLE TO CONTRIBUTE TO THE DEFENSE OF THE PANAMA CANAL. WE ARE WORKING NOW TO HELP PANAMA PREPARE TO ASSUME THE MAJOR ROLE IN DEFENDING THE CANAL BY FY2000 AND MUCH IS TO BE DONE TOWARD THAT OBJECTIVE. FY 87 FUNDS WILL HELP THE PANAMANIAN DEFENSE FORCES COMPLETE FORMATION OF A SECOND INFANTRY BATTALION, ACTIVATE AN ARTILLERY BATTALION AND BUY AMMUNITION. IN ADDITION, PANAMA PLANS TO BUY ADDITIONAL TRUCKS, ACQUIRE AN ADDITIONAL PATROL BOAT TO INCREASE COASTAL SURVEILLANCE.

CHART #6 THE ANDEAN COUNTRIES

WE GROUP THE ANDEAN COUNTRIES BECAUSE THEY HAVE CERTAIN SIMILAR CHARACTERISTICS AND CONDITIONS. MOREOVER, CONDITIONS WITHIN THE

COUNTRIES - DRUG PRODUCTION AND TRAFFIC, TERRORISM, SUBVERSION - ARE SERIOUS THREATS TO THE INDIVIDUAL COUNTRIES. THEY ARE ALSO THREATS TO THE REGION AS A WHOLE. CLEARLY IT IS IN OUR BEST INTERESTS TO ACT NOW TO ENCOURAGE AND SUPPORT THEIR EFFORTS AGAINST THESE THREATS. THE MILITARY ASSISTANCE PORTION OF THE PRESIDENT'S REQUEST IS DESIGNED TO COMPLEMENT OTHER U.S. GOVERNMENT EFFORTS TO WORK WITH THESE COUNTRIES TO REDUCE THE GROWING SCOURGE OF DRUGS AND ALL THE EVIL SIDE EFFECTS THEY BRING.

BOLIVIA

BOLIVIA IS A DEMOCRATIC COUNTRY FACED WITH NARCOTICS PROBLEM AND A LARGER DEBT. THE $6 MILLION MAP PROGRAM IS A MODEST REQUEST IN LIGHT OF THE INTERNAL NEEDS FOR THIS COUNTRY. BOLIVIA IS A MAJOR SOURCE OF COCA USED IN THE NARCOTICS TRADE. ANY EFFORTS ON THE PART OF THEIR MILITARY TO COUNTER THIS ILLICIT TRAFFIC IS DEPENDENT ON MAP FUNDS. THE MILITARY FACES A NARCO-TRAFFICKING ADVERSARY WHO OFTEN HAS BETTER MOBILITY, MORE ADVANCED COMMUNICATIONS AND BETTER WEAPONS THAN THEMSELVES.

THE SUCCESS RATE OF STOPPING THE NARCOTIC TRAFFICKING REQUIRES A MAJOR U.S. COORDINATED EFFORT. THE MAP FUNDS ARE A PART OF THESE EFFORTS. CUTTING MILITARY ASSISTANCE WILL ONLY JEOPARDIZE EFFORTS TO COMBAT THE PROBLEM OF ILLEGAL NARCOTICS TRAFFIC.

COLOMBIA

FMS FINANCING AND MAP WILL HELP COLOMBIA CONTAIN TERRORIST AND SUBVERSIVE GROUPS WHICH, ALONE OR IN COOPERATION WITH NARCOTICS TRAFFICKERS, SEEK TO OVERTHROW THE DEMOCRATIC GOVERNMENT AND DISRUPT THE ECONOMY. COLUMBIA WILL USE THE ASSISTANCE TO MAINTAIN ITS HELICOPTER FLEET AND PURCHASE OTHER SMALL MILITARY ITEMS TO INCREASE ANTI-TERRORISM AND COUNTER THE ORGANIZED NARCOTIC AND INSURGENT THREATS WHICH NOW EXIST THERE.

ECUADOR

THE MAP PROGRAM IS A KEY COMPONENT IN EFFORTS TO HELP ECUADOR PROTECT ITS YOUNG DEMOCRATIC INSTITUTIONS FROM TOTALITARIAN TERRORIST INSURGENTS AND THE CORRUPTION INHERENT IN ILLICIT NARCOTICS TRAFFICKING. EXPECTED MAP PURCHASES OF GROUND TRANSPORT VEHICLES, COMMUNICATIONS AND MEDICAL EQUIPMENT, SMALL ARMS, AUTOMATIC WEAPONS AND SPARE PARTS WILL BE USED TO COMBAT TERRORIST AND NARCOTICS TRAFFICKERS.

PERU

THE DEMOCRATIC GOVERNMENT IN PERU IS UNDER SIEGE FROM AN ACTIVE INSURGENCY AND IS FACED WITH MASSIVE DEBT REPAYMENTS TO INTERNATIONAL LENDERS. THE PROPOSAL TO APPLY MAP FUNDS TO PERU RECOGNIZES PERU'S DEBT PROBLEM.

MAP AND FMS FINANCING WILL BE USED TO PURCHASE EQUIPMENT SUCH AS SMALL ARMS, TRANSPORTATION VEHICLES, COMMUNICATION EQUIPMENT, AND MOBILITY NEEDED TO COMBAT TERRORISM AND NARCOTICS INSURGENCY.

URUGUAY

IN URUGUAY PROPOSED MAP GRANTS WILL BE USED LARGELY TO BUY SPARE PARTS FOR HELICOPTERS, TRUCKS, SUPPORT EQUIPMENT, AND PUBLICATIONS. THESE MODEST PURCHASES ALONG WITH IMET TRAINING ARE INTENDED TO ENHANCE STABILITY AND SUPPORT DEMOCRACY BY HELPING TO MAINTAIN THE MILITARY IN A PROFESSIONAL STATUS.

CHART #7 EL SALVADOR REQUIREMENTS FY 86 AND FY 87

I NOTED EARLIER THAT WE MUST FUND EL SALVADOR FULLY AT THE LEVEL OF THE PRESIDENT'S REQUEST. ANY REDUCTION NOW WOULD SEND THE WRONG SIGNAL TO THE PEOPLE OF EL SALVADOR WHO ARE FIGHTING FOR DEMOCRACY AND PEACE, TO THE GOVERNMENT OF PRESIDENT DUARTE, TO THE MILITARY, AND OF COURSE TO THE COMMUNIST-LED SUBVERSIVES. WE MUST REMAIN CONSTANT IN OUR SUPPORT FOR EL SALVADOR.

THE TWO PIE CHARTS BEFORE YOU ARE INTENDED TO DEMONSTRATE OUR POINT ABOUT CONSTANCY OF SUPPORT. YOU WILL NOTE THAT THERE IS NOT MUCH DIFFERENCE FROM THIS YEAR TO NEXT YEAR IN THE DISTRIBUTION OF THE FUNDS. HERE WE SEE WHERE CONTINUED SUPPORT BY CONGRESS HAS GIVEN THE EL SALVADORAN ARMED FORCES THE STRENGTH AND PROFESSIONALISM TO WIN ON THE BATTLEFIELD. IT IS A BALANCED

PROGRAM WITH HIGH EMPHASIS ON LOGISTICS, MAINTENANCE, MOBILITY, FIREPOWER, ETC. WE WILL PROVIDE A FEW MORE ITEMS TO INCLUDE ONE A-37 JET AND SEVERAL TRAINING AND NAVAL PATROL CRAFT. AIRCRAFT PROCUREMENT IS INTENDED ONLY TO OFFSET EXPECTED OPERATIONAL LOSSES TO DECREASE COSTS FOR EL SALVADOR BY MINIMIZING THE HIGHER COST OF PILOT TRAINING IN THE U.S. THE ESAF WILL PUT MAJOR EMPHASIS ON IMPROVING MOBILITY AND SMALL UNIT OPERATIONS AND ENHANCING THEIR COUNTER-TERRORISM CAPABILITIES. ADDITIONALLY, THESE FUNDS WILL BE USED TO SATISFY SPECIFIC TRAINING AND EQUIPMENT REQUIREMENTS IN SUPPORT OF MILITARY AND PUBLIC SECURITY COUNTER-TERRORISM PROGRAMS.

CHART #8 MAJOR CHALLENGES AHEAD

CONCLUSION

IN CONCLUSION, MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I WOULD LIKE TO EMPHASIZE THE MAJOR CHALLENGES THAT LIE AHEAD. U.S. SECURITY ASSISTANCE, JUDICIOUSLY APPLIED, CAN CONTINUE TO HELP COUNTRIES SECURE THEIR FREEDOM FROM DOMINATION OF TOTALITARIAN FORCES. IT CAN CONTINUE TO STABILIZE DEMOCRATIC INSTITUTIONS, SOME OF WHICH ARE VERY NEW AND STILL FRAGILE. SECURITY ASSISTANCE CAN ALSO COMPLEMENT ECONOMIC ASSISTANCE TO HELP STABILIZE REGIONAL ECONOMIES, ESPECIALLY IN THOSE COUNTRIES WHOSE INFRASTRUCTURES HAVE BEEN UNDER ATTACK BY TERRORISTS OR OTHER SUBVERSIVE FORCES. FINALLY, U.S. SECURITY ASSISTANCE PROGRAMS, INCLUDING THE IMPORTANT IMET TRAINING, CAN CONTINUE TO

PROMOTE MILITARY PROFESSIONALISM AND THEREBY SUPPORT DEMOCRATIC INSTITUTIONS AS WELL. THE ADMINISTRATION AND CONGRESS CAN CONTINUE OUR RECORD OF ACCOMPLISHMENT THROUGH FULFILLMENT OF OUR FY87 BUDGET REQUEST. IT IS CRUCIAL THAT THE U.S. CONTINUE ITS SUPPORT FOR THESE MODEST BUT CRITICAL AND HIGH PAYOFF PROGRAMS.

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM PREPARED TO TAKE YOUR QUESTIONS.

General GAST. Mr. Chairman, if I may, speaking in support of my colleagues in the State Department, last week, when I was appearing before you on South Asia, I mentioned a Congressional presentation document and how we had worked to try to improve it. One of the chapters I did not highlight is a section on planning that begins in volume one, on page 18, and it goes through page 21. That sections discusses the problems that we have in working with our friends and allies in order to put together a program.

The program that we are addressing to you today actually was in discussion a year ago with the countries. We put it to bed in the President's budget last fall. It was also put to bed well before we knew how much money was going to be appropriated by the Congress and not earmarked. Finally, due to Gramm-Rudman and sequestering requirements, we did not know how much money we would have available until February.

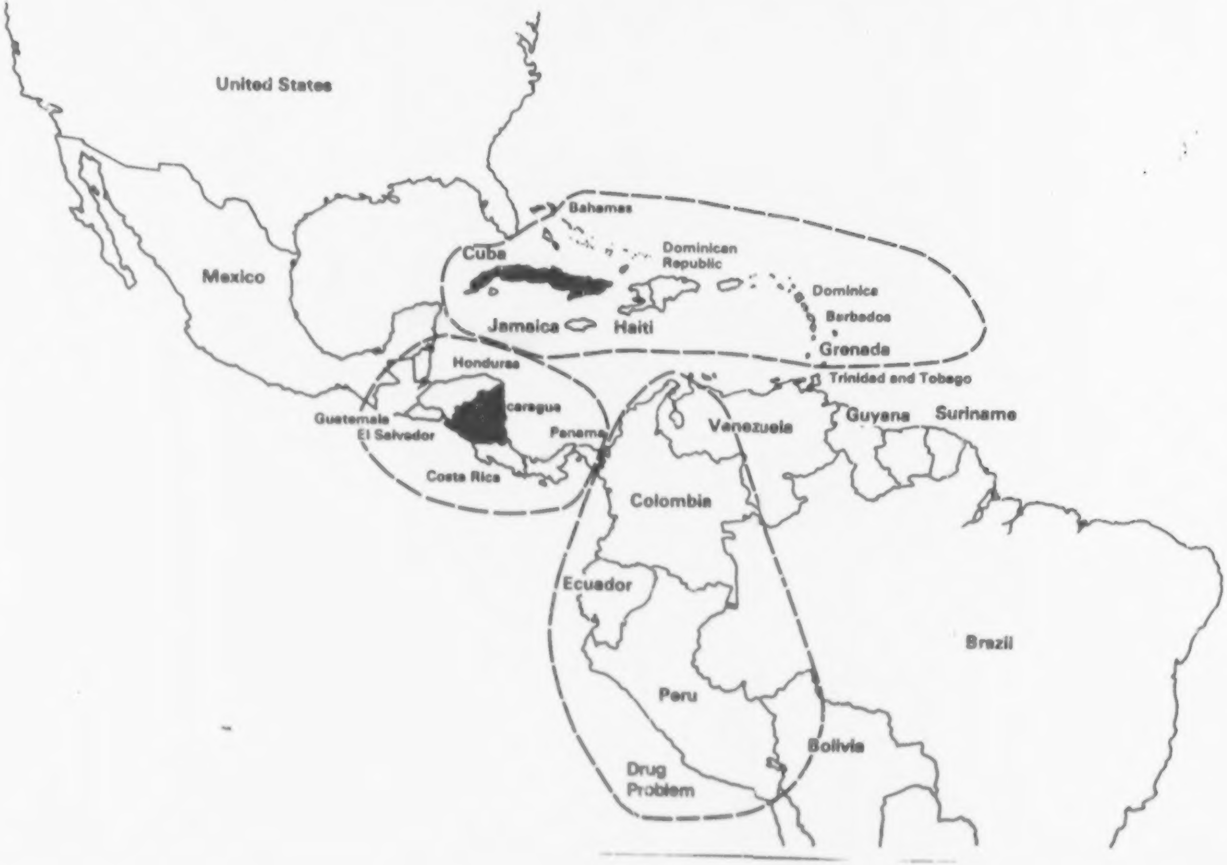
Now we have in fact worked very hard with our friends in Central America and been able to come up with a planning process. We are beginning the process as well in South America.

The fact is that due to the reduction in appropriated funds last year, we were able to largely maintain a continuity level in Central America; but we could not move into South America with any substantial assistance for them.

We also, in fact, maintained some sort of level in military assistance in the Eastern Caribbean.

[Chart follows:]

LATIN AMERICA: CHALLENGES


United States
Mexico
Bahamas
Cuba
Dominican Republic
Jamaica
Haiti
Dominica
Barbados
Grenada
Trinidad and Tobago
Honduras
caragua
Guatemala
El Salvador
Panama
Costa Rica
Venezuela
Guyana
Suriname
Colombia
Ecuador
Peru
Bolivia
Brazil
Drug Problem

I have grouped these countries into the Eastern Caribbean, Central America, and then the Andes with the drug problem. I would point out that our proposed military assistance to the Eastern Caribbean area is about $90 million, which is only 1%, one-tenths of one percent, for all of the world in military assistance. This money would go to these countries to assist in maintaining their sovereignty, and to support the Regional Security System (RSS), as well as helping in drug interdiction.

Another 3.6% of the military assistance budget would be for all of Central America; and only 1% is proposed for the Andean countries; for a total of 5% of the military assistance in this budget.

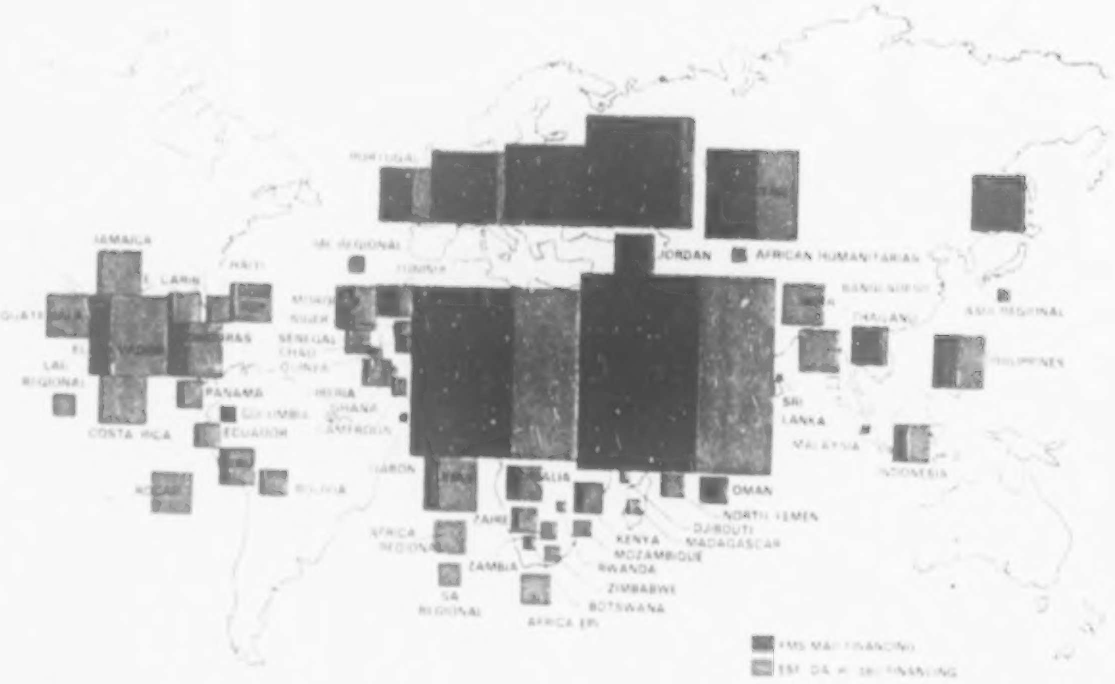
I will describe more the programs for Jamaica and Haiti. They are largely for drug enforcement, particularly in Jamaica—where some helicopters would be provided. The Dominican Republic needs more aircraft in order to provide for sea surveillance and air sovereignty in their area.

In Central America, we focus on the Nicaraguan and the Cuban threat. We did have to take a reduction in Honduras last year. We only got some $58.7 million. We are asking for $87.5 million this year to give them the capability to withstand the pressures from Nicaragua. The funds would largely be spent on artillery fire support, patrol boats to keep infiltration out of coastal waters, and air defense and command and control. In El Salvador, the program would provide more or less continuity, but would enhance mobility and their capability for fire support.

In the Andean countries, we find similar characteristics; but they are not all precisely alike. The threat to the United States in each of those countries is similar. Drug traffic is prevalent there, which brings narco-terrorism and subversiveness. The characteristics are the same in Columbia, Ecuador, Peru, Bolivia. I will relate the plans and how we would hope to help those countries as they assist the military in controlling those elements.

[Chart follows:]

FY87 REQUEST ECONOMIC & MILITARY PROGRAMS
(scaled to program size)


PORTUGAL
JAMAICA
E. CARIB
HAITI
GUATEMALA
EL SALVADOR
HONDURAS
LAC REGIONAL
COSTA RICA
PANAMA
COLOMBIA
ECUADOR
BOLIVIA
NE REGIONAL
TUNISIA
MOROCCO
NIGER
SENEGAL
CHAD
GUINEA
LIBERIA
GHANA
CAMEROON
GABON
AFRICA REGIONAL
SA REGIONAL
ZAIRE
ZAMBIA
AFRICA EPI
BOTSWANA
ZIMBABWE
RWANDA
MOZAMBIQUE
KENYA
MADAGASCAR
DJIBOUTI
NORTH YEMEN
OMAN
SOMALIA
JORDAN
AFRICAN HUMANITARIAN
BANGLADESH
THAILAND
ASIA REGIONAL
PHILIPPINES
SRI LANKA
MALAYSIA
INDONESIA
FMS MAP FINANCING
ESF DA IMET FINANCING

NOT ALL COUNTRIES SHOWN

You have seen this chart before. It is scaled to financing. One cannot help but be taken by the fact that Israel and Egypt alone represent about 48% of the budget. If one includes the base-rights countries, one is well over 85%. The smaller countries here are proposed mostly for MAP financing and ESF. We include ESF as economic in this chart.

You can see that as we move to this particular region (Latin America) we are heavy in economic assistance. There is relatively little military assistance: $1.6 billion and over for economic assistance within this area that we are here before you on today, and only $368 million in military assistance.

[Chart follows:]

LATIN AMERICA

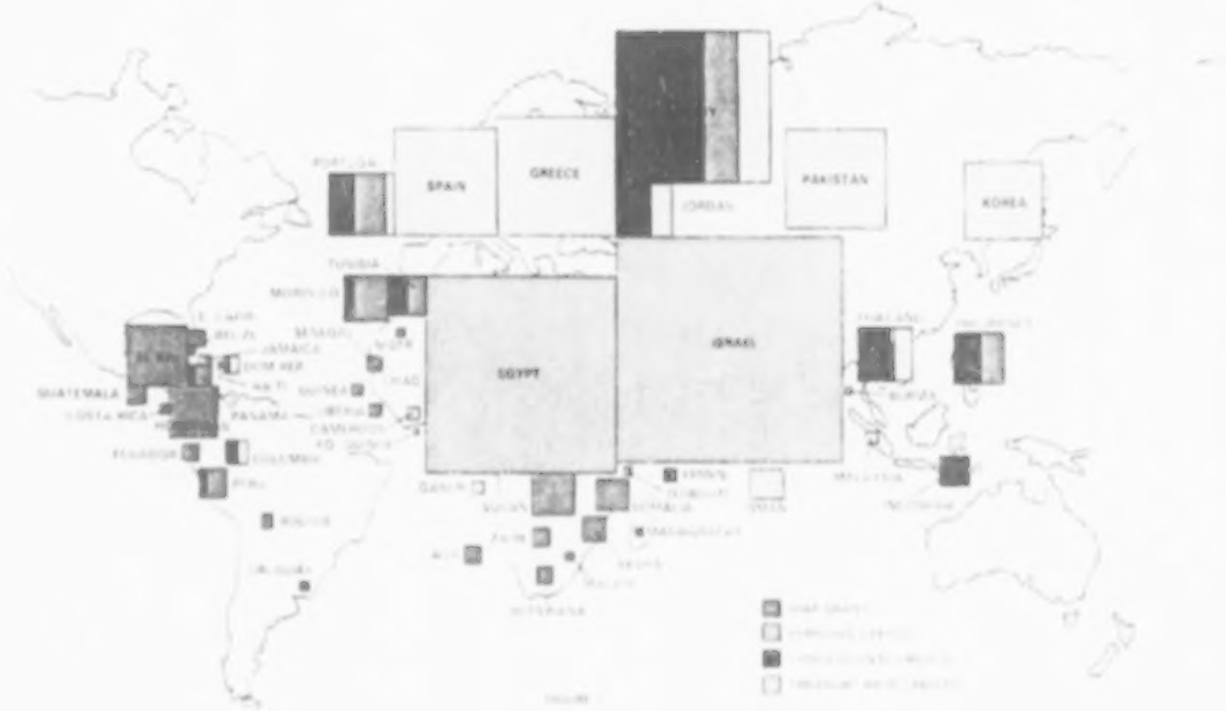
1981		1986
INTERNAL VIOLENCE MILITARY GOVERNMENTS SPREADING SUBVERSION	— POLITICAL —	BURGEONING DEMOCRACY INTERNAL VIOLENCE DECLINING
OVERWHELMING ECONOMIC PROBLEMS	— ECONOMIC —	DECLINE HALTED DEBT PROBLEM ADDRESSED
EL SALVADOR UNDER SIEGE VIOLENCE SPREADING	— SECURITY —	VIOLENCE CONTAINED CIVILIAN DEATHS DOWN

People have pointed to the progress that we have made. As we work with our countries and tried to urge them on with our support, we can see that there has been remarkable progress in the political, economic and security areas since '81.

They are all now looking to the United States for continued support; looking to support themselves; and are making their own reforms as they maintain a burgeoning democracy.

[Chart follows:]

FY 1987 FMS MAP FINANCING REQUEST (SCALED TO FINANCING)


PORTUGAL
SPAIN
GREECE
JORDAN
PAKISTAN
KOREA
TUNISIA
MOROCCO
EGYPT
ISRAEL
THAILAND
PHILIPPINES
BURMA
MALAYSIA
INDONESIA
EL SAL
BELIZE
JAMAICA
DOM REP
HAITI
GUATEMALA
COSTA RICA
HONDURAS
PANAMA
ECUADOR
COLOMBIA
PERU
BOLIVIA
URUGUAY
SENEGAL
NIGER
GUINEA
LIBERIA
CHAD
CAMEROON
SUDAN
SOMALIA
DJIBOUTI
YEMEN
OMAN
ZAIRE
KENYA
MALAWI
BOTSWANA
MADAGASCAR
FIGURE

On this chart, sir, I have indicated to you the military financing. Even though overall assistance is some four-to-one economic in Latin America, we work to help the countries in the right way. We are heavy in MAP in Latin America. The green is MAP. Egypt and Israel receive forgiven credits. Concessionary credits are shown in red and there is only a little of that in this region in the Dominican Republic and Colombia. For example, there are no Treasury rate credits in the region. It is largely MAP, in order to reduce their repayment schedules.

I mentioned to you, sir, that we have been working hard with the countries to develop a plan so that they——

Mr. OBEY. General, on ESF your chart, when you refer to "economic," however, you are including ESF funds in economic.

General GAST. Yes, sir.

Mr. OBEY. I think for the benefit of those in the room it should be understood that ESF funds are those funds which are provided to countries who have very large defense budgets and are seen as a political way of buttressing people with defense problems.

I don't subscribe to the division that you have on that chart; I want to make it clear.

General GAST. I understand you do not, sir.

I would also point out though that in the Carlucci Commission, the bipartisan commission, there was agreement to put ESF in economic aid. So we have chosen to do that.

Mr. OBEY. Well, I think it is interesting to note who makes the presentation for ESF before the Committee, however.

General GAST. Well, I only put it in there in that the law and the prescribed format of the Congress requires ESF to be laid out as part of security assistance.

Mr. OBEY. That is right.

General GAST. We do not describe it as military assistance, on the other hand.

Mr. OBEY. It is security-related assistance, though.

Mr. KEMP. Mr. Chairman, does not Costa Rica get ESF?

General GAST. Well, there are ESF programs in all of the countries.

Mr. KEMP. Well, the point of my question was to point out that Costa Rica gets ESF and has no army. So it is not always military.

General GAST. This is a chart that shows largely economic assistance.

Mr. OBEY. They get military, too.

General GAST. Most of it is ESF and there is not so much military assistance.

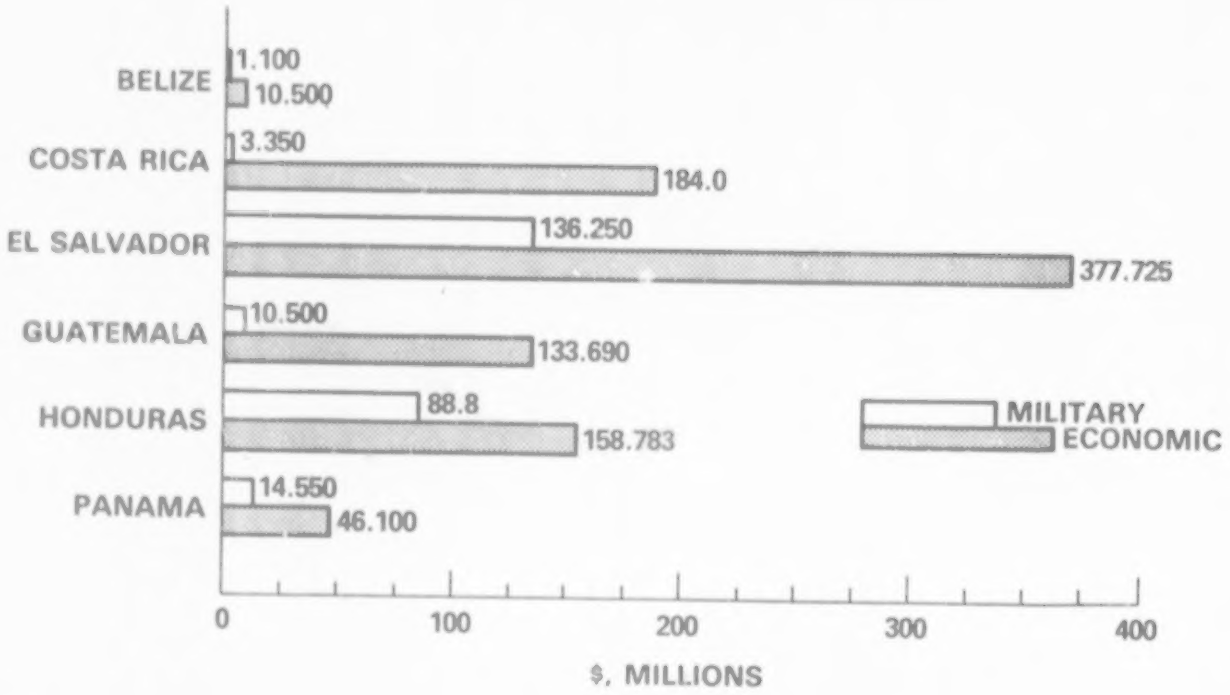
Mr. OBEY. They will get more if we have our way, Jack.

Mr. KEMP. They have no army, is my point.

General GAST. I think you make a point there, Mr. Chairman. And of course we in Defense work very closely with State in putting together a balanced budget, recognizing the importance of ESF.

[Chart follows:]

CENTRAL AMERICA
ECONOMIC & MILITARY ASSISTANCE
FY 87



Here I have shown the military and economic assistance. I have grouped these countries as Central America, as you can see.

I want to point out that in no case on any of these charts or in our plans for 1987 are we introducing a new kind of equipment. We are providing funds to Costa Rica only to maintain what they have, with spare parts and support.

In El Salvador, we provided only $120 million last year, partially because $5 million has been withheld. We are asking for $134.65 million for the coming year. These funds would add helicopters to assist them to pursue the insurgency and the subversives in the field so as to bring them to the peace table. It would provide a few more helicopters; about eight; and some artillery. The rest provides mostly sustainment and more trucks and medical supplies—and I will come back to that later—also patrol boats.

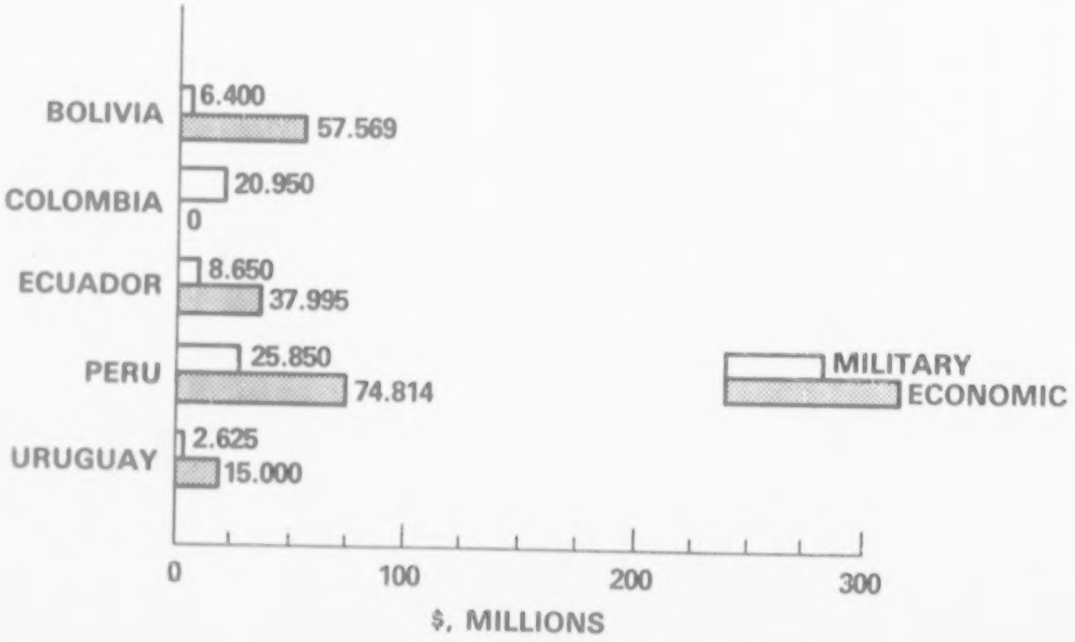
For Guatemala, we are waiting for the President's Request. But we must plan for it. The Funds requested would only provide some trucks, some spare parts, medical supplies, and command and control communications.

In Honduras, we really did have to cut them back last year to $58.664 million. I have already described the threat and the kind of things we need to do: A communications battalion; more artillery—some 18 more tubes; anti-tank weapons; and some aircraft spares. They also need patrol boats to maintain their sovereignty around their nation and to protect them against infiltration.

We have an obligation to help the Panamanians to be ready by the year 2000. If we cannot provide the equipment and the training now, they will never be ready by that time.

[Chart follows:]

ANDEAN COUNTRIES
ECONOMIC & MILITARY ASSISTANCE
FY 87



Moving on into South America—and I have grouped these as the Andean countries—we recognize that the military plays a different role in each of these countries. We believe that the military assistance programs we have designed this year, working with the countries, are to help against the scourge of drugs and all of their evil side effects. We propose a relatively small amount in Bolivia. In Colombia it is heavier, helping them maintain the aircraft they have; and also includes communications and small arms, to take care of the subversives there.

In Ecuador, you will recall, Mr. Chairman, that last year you agreed with us on reprogramming $2 million worth of MAP at the end of the year that we found available to help them to begin to deal with this drug problem and the terrorism there. With that $2 million we were able to encourage our Ecuadorian friends to begin a 5-year plan to enable them to maintain democracy, but also, to begin a drug program as well as to cope with terrorism.

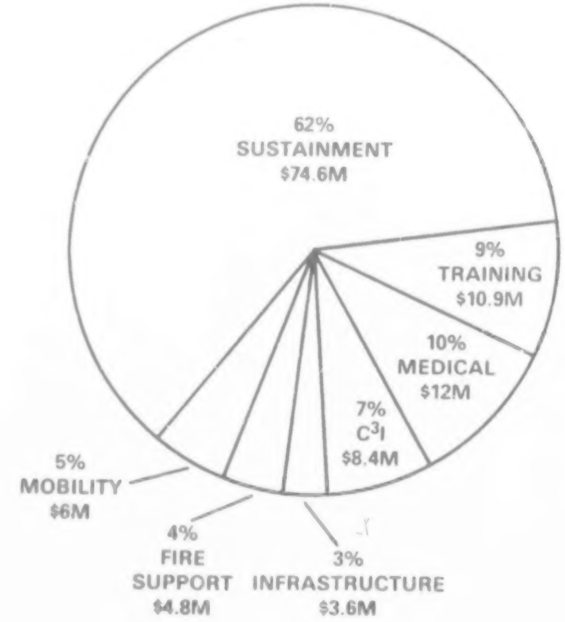
Here in Peru we could not get started last year. We need to begin to work with our friends down there to begin to address the similar problems as elsewhere.

Now I will only mention El Salvador, because I am concerned that many feel that it is not important to maintain the levels at which we have been providing funds.

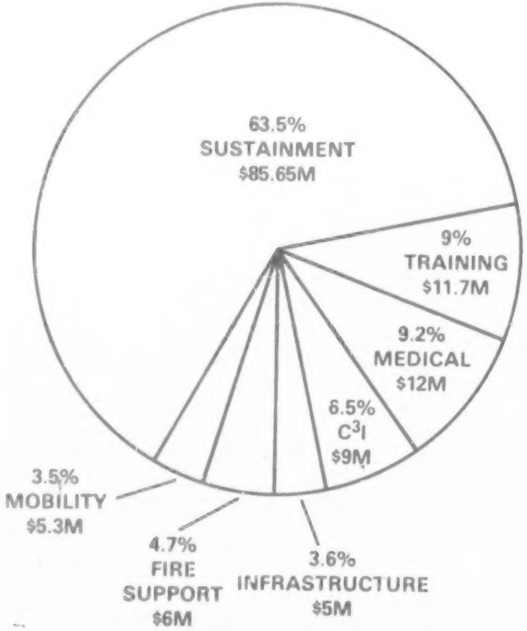
[Chart follows:]

EL SALVADOR REQUIREMENTS: FY 86 AND FY 87

FY 86
$120.367 MILLION



FY 87
$134.65 MILLION



You will recall, Mr. Chairman, we were trying to hammer out a consensus in the United States Government on what was required for El Salvador, and we were able to do that. With the election of President Duarte, we could get that consensus.

Here is a comparison of the '86 to '87 program. For El Salvador, we show $120 million for '86 and 134 for '87. Our friends, understood last year the reductions that we had to take. They look forward to our continued support and commitment so that they can deal with the threat within their countries, the real-live communist-led subversiveness.

There is a change in the mix of programs. We are going to go higher on sustainment this year, because we had to cut it back last year. We are also going to add some more patrol boats so as to stop the infiltration around their waters; and a few more helicopters.

The important thing is, we remain very high on training, where we must continue to train the military, not only on professionalism, but also on human rights and such things of that nature, as well as mobility.

[Chart follows:]

MAJOR CHALLENGES AHEAD

- FREEDOM FROM DOMINATION BY TOTALITARIAN FORCES
- STABILITY OF DEMOCRACY
- STABILITY OF VIABLE ECONOMIC SYSTEMS
- PROMOTION OF MILITARY PROFESSIONALISM AND SUPPORT OF DEMOCRATIC INSTITUTIONS

Finally, I would just add, and get off the stage here, that these I think are generally accepted facts. We need to have the stability; promotion of military professionals; but most of all, we need to encourage them. And if we are to take the kind of reductions we had last year, we will not be able to progress in South America. And if we take significant cuts, then our friends and allies will have to look to see how they can restructure and what they can do.

Thank you very much.

Mr. **Kemp**. Mr. Chairman, could I ask a question for clarification?

Would you bring that previous chart out?

General **Gast**. This one here, sir?

MILITARY ASSISTANCE FOR EL SALVADOR

Mr. **Kemp**. Am I reading that correctly, that the FY '86 budget was 120 point——

General **Gast**. Yes, sir.

Mr. **Kemp**.—'87, 134? This is for?

General **Gast**. For El Salvador and for the military.

Mr. **Kemp**. For military for El Salvador?

General **Gast**. Yes, sir.

Mr. **Kemp**. You mean, we are actually giving more money for military assistance in 1987 to El Salvador than we did in '86?

Are we giving more than we did in '85?

General **Gast**. Sir, there was a reduction in '85 because of the Gramm-Rudman holdings, as well as a $5 million withhold; last year.

Mr. **Kemp**. I am just wondering why that is not——

Mr. **Obey**. No, no, no, that is not correct.

Gramm-Rudman did not apply to 1985.

General **Gast**. Oh, I am sorry.

Mr. **Obey**. 1986.

General **Gast**. '86, I meant to say.

Mr. **Kemp**. I guess I am wondering why that is not—I seem to remember hearings here, we had cameras and TV; how come they are not here now to worry about El Salvador?

General **Gast**. I am sorry, I am not sure I quite understood your question.

Mr. **Kemp**. I am just trying to figure out why that was of such great controversy in '85–'86. We had cameras around here. We are giving more money in '87 proposed——

General **Gast**. Yes, sir.

Mr. **Kemp**. Why is that not in controversy?

General **Gast**. I do not believe that it is.

My concern in highlighting——

Mr. **Obey** [continuing]. Not so much in controversy.

Mr. **Kemp**. Why is it not?

General **Gast**. I believe that you can address that to the State Department, but from my point of view, I believe that people believe that we are on the right track in El Salvador.

That is my perception. You would not agree with that, I take it, sir?

Mr. **Obey**. Mr. Secretary, let me ask you one question. Is it the position of the Administration that the Panama Canal Treaty is in the best national interests of the United States?

Mr. **Abrams**. The enforcement of that treaty certainly is.

Mr. **Obey**. Is it the position of the Administration that the Panama Canal Treaty is in the best interests of the United States?

Mr. **Abrams**. I do not know that we have ever raised that question. We have a Panama Canal Treaty, and we have now, for what, for five, six years—five-and-one-half years been trying to implement it as well as we can possibly do.

I have never been present at a meeting at which anybody asked that question.

Mr. **Obey**. Well, the reason I asked the question is that I think any fair observer would grant that Panama is in a more stable situation than it was when the Canal was at issue.

I do recall the present occupant of the White House being opposed to the passage of that treaty at that time. And I was wondering whether now that he has had to deal with those countries, he has changed his position or not.

Mr. **Abrams**. Well, I cannot answer that question.

But I would say, Mr. Chairman, that I would not agree with you that the political situation in Panama is one of complete stability. As you know——

Mr. **Obey**. I did not say that. Please. We have got five minutes apiece. So do not put words in my mouth. And please respond to the questions that I raise.

I did not say——

Mr. **Abrams**. What you said, Mr. Chairman, you said there was improvement in the political stability.

Mr. **Obey**. I said that the political situation in Panama was more stable now than it was when the treaty was at issue.

Mr. **Abrams**. I am not sure that I would agree with that.

Mr. **Obey**. Well, I would be surprised if any fair observer did not agree with it.

Mr. **Abrams**. I regret I am an unfair observer in that case.

But you will recall that the President resigned last year. That is an element of instability.

Mr. **Obey**. I do not see many demonstrations against the United States down there these days either.

MONEY FOR NICARAGUA

Let me ask you a question. The President told the country Sunday night that the money he was requesting for Nicaragua was not an addition; it was money we already had.

Is that the position that the Administration is taking?

Mr. **Abrams**. Yes. It is a transfer.

Mr. **Obey**. Are you telling us that the Administration has absolutely no intention to request that the Defense Department be reimbursed for those funds at a future date?

Mr. **Abrams**. My understanding is that that is not decided.

Mr. **Obey**. So that is not decided.

So then, in other words, the President's comments would have been premature if it is yet undecided.

Mr. **Abrams**. Well, I do not see why.

This expenditure of $100 million is one issue——

Mr. **Obey**. It is very simple, Mr. Secretary.

The President tried to give the public the impression on television Sunday night that this would not cost—that the $100 million additional request would not cost the taxpayer anything because it was coming from funds that they already had.

I noticed that Bill Plante, in response to a question from Charles Kuralt on the "Sunday Morning" television program, made the same point.

However, when I read the release dated February 25 from the White House, Office of the Press Secretary, it contains the following statement: "However, the resulting reduction in the funds available for the Department of Defense, if not remedied, will inevitably impair ongoing efforts to restore and maintain the readiness of the armed forces. This impairment in defense readiness will be addressed separately."

Now I have been around here long enough to know that when I read that language that is a message that we are going to get a request for a supplemental.

Mr. **Abrams**. You can accept it or reject it. But that $100 million is coming out of the Defense budget.

Mr. **Obey**. We understand that.

My question is, before the Congress votes on this I think the American people have a right to know whether this is just the first shoe of two shoes that are going to be dropped, or whether in fact this is simply a straight transfer with no expectation whatsoever that the Congress is going to be asked to add that money back at a later time.

And I think we have got a right to an answer to that question.

Mr. **Abrams**. My understanding is that that question has yet to be answered. That is——

Mr. **Obey**. If that question has yet to be answered then the President has no right to go on television and tell people that this is not going to cost them a dime——

Mr. **Abrams**. That is up to you.

Mr. **Obey**. It is up to us to approve. But I think the public has a right to know whether the President is intending to ask that this money be replaced.

Mr. **Abrams**. I do not think that the President has made that decision yet.

Mr. **Obey**. Can you guarantee us that the President will not ask the Congress that this money should be replaced?

Mr. **Abrams**. Absolutely not.

Mr. **Obey**. I did not think so.

WHAT THE MONEY WILL BUY

Let me ask another question. What is this $100 million going to buy? What kind of equipment?

Mr. **Abrams**. Well, Mr. Chairman, as you will recall, the way the request is formulated, there is a $30 million humanitarian assistance program along the lines of the one we now have.

Mr. **Obey**. I am talking about the other $70 million.

Mr. **Abrams**. The $70 million. The request, of course, does not specify, in part because this program is not meant to be on the front pages of the newspapers.

To the extent that details are gone into, you have a certain degree of assistance to the Sandinistas.

Mr. **Obey**. Well, you know, the Washington Post carried an article this morning talking about what it is going to buy. I assume we can be told as much as a Washington Post reporter can be told.

Mr. **Abrams**. Yes. The basic purpose of that is to field a force—and I do not think I need to go into great detail, as you will see in a minute—of something like 20- or 25,000 men. The purpose of that money would be to train and equip those men.

Mr. **Obey**. No, my question is, what equipment is it supposed to buy?

Mr. **Abrams**. Well, first of all it is supposed to buy small arms and ammunition. It is supposed to buy antiaircraft equipment. It is supposed to buy anti-armor equipment.

Mr. **Obey**. Is it going to buy anti-air missiles?

Mr. **Abrams**. I do not think I should be discussing at an open hearing precisely what——

Mr. **Obey**. Well, on page one of the Washington Post——

Mr. **Abrams**. Well, that is irrelevant to my answer.

Mr. **Obey**.—the article said yesterday, "Reagan Administration officials yesterday predicted that the House would approve President Reagan's proposed $100 million aid package." And then went on to discuss a Pentagon official involved with drafting the assistance package, who said that we were intending to buy—or pay for SA-7s with the money.

So I hardly think I am revealing anything that has not already been on the front page for the benefit of——

Mr. **Abrams**. There are an awful lot of things on the front page of the Washington Post that are inaccurate. And I am certainly not going to confirm or deny allegations as to how we are going to spend money when we do not want the Sandinistas to know how.

ASSISTANCE TO CONTRAS

Mr. **Obey**. The Post also reported last week that the $100 million proposal for assistance to the contras would permit U.S. military personnel to participate in the training of contras; is that correct?

Mr. **Abrams**. Absolutely. Training is a key part of the program.

Mr. **Obey**. Where will that training take place?

Mr. **Abrams**. Either in Central America or here. But for the most part, in Central America.

Mr. **Obey**. Where in Central America?

Mr. **Abrams**. I will not discuss that question at an open hearing, Mr. Chairman.

Mr. **Kemp**. Mr. Chairman, why do we not go into a closed session so you can ask the questions?

Mr. **Abrams**. For reasons I think you can well understand.

Mr. **Obey**. Mr. Kemp, if I want to ask questions in closed session, I will ask the questions in closed session. But I want to ask these questions in open session.

Mr. **Abrams**. Well, I will not respond in open session, Mr. Chairman.

Mr. **Kemp**. If you want an answer, would it not be better to go into closed session?

Mr. **Obey**. Jack, it is my time. I will be happy to let you ask any questions you want in your time.

Mr. **Lewis**. But Mr. Chairman, these are questions to our security.

[The Chairman gavels for order.]

Mr. **Lewis**. Mr. Chairman, these are questions that are sensitive to our security. Are you going to ask them in open session?

Mr. **Obey**. I will ask whatever questions I please in open session. If you do not like it——

Mr. **Lewis**. But Mr. Chairman, I think you are fundamentally in violation of House rules, if that is the case.

Mr. **Obey**. Well, I can ask any question I want. Do not be silly. I have seen you make silly statements before, Jerry. But come on.

Mr. **Lewis**. Mr. Chairman, you are being silly at this point.

Mr. **Obey**. The gentleman will have the right to ask any question he wants on his time. The Chair will ask what questions he wants on his time.

Mr. **Kemp**. May I say something?

Mr. **Obey**. Jack——

Mr. **Kemp**. May I ask you a question?

Mr. **Obey**. No. I will not answer it. I am trying to get the Secretary to answer some questions. You can ask me questions on your time, not mine.

ADMINISTRATION GOALS

Let me ask you this, Mr. Secretary: If you get your aid this year, $100 million, how much more are you going to be back for next year and the following year? What do you expect that we will have to approve over a three-year period in order to achieve the goals that the Administration lays out for its package?

Mr. **Abrams**. First, the $100 million is for 18 months, that is, through the end of FY '87. So there would be no additional requests at least until the end of FY '87.

At that point, it is going to depend on what is going on in Central America. There is no dollar figure in our minds.

It depends partly on how well Phil Habib does. It depends partly, I suppose, on what the Cubans and the Soviets do.

Mr. **Obey**. What is the $100 million supposed to accomplish?

Mr. **Abrams**. First——

Mr. **Obey**. Does it have in your judgment any reasonable prospect of toppling the Sandinistas?

Mr. **Abrams**. Oh, it has a prospect of that. It has a prospect of it.

Mr. **Obey**. Would you rate that prospect as being 50% or better, or not?

Mr. **Abrams**. Well, it is highly speculative. But I would certainly say that it is 50%. I think it is a decent prospect if they do not negotiate.

The purpose of the money——

Mr. **Obey**. Is that the purpose of the money, to topple the Sandinistas?

Mr. **Abrams**. No, the purpose of the money is, first, to make sure that there cannot be a Sandinista military victory.

The Sandinista purpose is a military victory. And until we close off that option to them, then there will never be any negotiations in Central America.

Mr. **Obey**. Are you seriously——

Mr. **Abrams**. That is the first option.

Mr. **Obey**. Are you seriously suggesting that we have an opportunity to topple the Sandanistas with the expenditure of $100 million?

Mr. **Abrams**. No. I am seriously suggesting that, if we get this program, and if I am correct in saying—and this is an assumption; I think I can demonstrate it, but it is an assumption—it is a very unpopular regime in Nicaragua. Like all communist regimes, it has no real legitimacy at home. Then a good strong fighting force combined with popular opposition certainly gives you the prospect that that regime is going to have to come to the table or collapse.

Mr. **Obey**. Let me ask two other questions.

U.S. PERSONNEL TO TRAIN CONTRAS

How many U.S. personnel do you anticipate participating in the training of the contras?

Mr. **Abrams**. I can give you an order of magnitude. We are talking about something like three or four dozen. It is roughly the same number of trainers that we have in El Salvador, actually.

But that is not an exact figure. It is an order of magnitude.

Mr. **Obey**. If the $100 million that you get does not achieve the toppling of the Sandinistas, how much further are we going to be willing to go?

Mr. **Abrams**. Well, you know, it is an hypothetical question. But I think I can try to answer it anyway.

If in 18 months you have a situation in which there is a good strong resistance with enormous and demonstrated popular support, and that regime is reeling, and we see the first real opportunity that it is either going to collapse or it is going to come to the table and make some kind of agreement with us, then I would assume there would be strong support on the Hill for continuing the program.

CONTRADORA PROCESS

Mr. **Obey**. The President indicated—and this is my last question because my time is up—the President indicated in his television statement that one of the reasons it was necessary for Congress to provide this assistance is because we needed to secure the freedom of the other countries in the region. I do not think anybody disagrees with the latter part of that statement.

My question is: If that is what we are concerned about, the freedom of the other countries in the region, then why are we not listening to the leaders of the other countries in the region who are telling us that we should not provide a military program against the contras but should, rather, get behind the Contadora negotiating process and turn it into something other than a forum for generalized, vague slogans?

Mr. ABRAMS. Mr. Chairman, I wish you would take the opportunity to talk to one of the ten or eleven of your colleagues who went to Central America last weekend. I think they would say that it is unfair to characterize the leaders of the region, as you have just characterized it.

Mr. OBEY. Well, let us take the new President of Costa Rica.

Mr. ABRAMS. The next President of Costa Rica.

Mr. OBEY. Yes.

Mr. ABRAMS. Yes, he disagrees with us. But it is an interesting——

Mr. OBEY. What about the Mexicans?

Mr. ABRAMS. If you are considering the Mexicans to be part of Central America?

Mr. OBEY. Well, the President warned about the threat to Mexico if we did not stop the communist hordes in Nicaragua. I assume that it is legitimate for me to raise the question of how that government feels about it.

Mr. ABRAMS. Well, the question, in part, is what is the region? What is the region? Does it include Uruguay?

Mr. OBEY. How does the President of Mexico feel about our request for military aid?

Mr. ABRAMS. Well, their public position is certainly to oppose it. And I suspect the private position of President De la Madrid is probably to oppose it, too.

Mr. OBEY. I think so, too.

Mr. ABRAMS. That is certainly the private position of the foreign minister.

Mr. OBEY. I think so, too.

Mr. Kemp.

Mr. KEMP. Mr. Chairman, you certainly have the right—no one challenges the right—to ask questions.

The minority, at least from this Member's standpoint, was suggesting that it was well within the boundaries of our suggestion that we go into sensitive questions from Mr. Abrams in a closed session. And with all due respect I do not think you really need to get upset with Mr. Lewis or myself for making that suggestion. It was not done to embarrass anybody, except to say that it might be edifying to this panel to have some of the questions answered that you alluded to.

And I want to remind you, Mr. Chairman, you were at the full committee meeting the other day when the full committee of the House Appropriations Committee took up Mr. McDade's suggestion that we might even have a closed session on the floor of the House with regard to these sensitive questions.

That was not—at least at that time you did not oppose it, so I just hope that we can lower the level of ad hominem attacks on those who want to raise a question whether or not sensitive questions should be answered by Mr. Abrams in public session.

Mr. **Obey**. Mr. Abrams can decline to answer any question he wants in public session, but the Chair of this Committee has a right to ask any question he wants——

Mr. **Kemp**. That is true.

Mr. **Obey**.—because I want the public to understand what some of the considerations are——

Mr. **Kemp**. We appreciate that.

Mr. **Obey**.—that we will consider in closed session, as you well know.

Mr. **Kemp**. We appreciate that. But it was the intention of the minority, Mr. Lewis and myself, to simply say that if we wanted to get answers to those questions, they would be better responded to in private session.

Elliott, what happens if there is no money? What happens if our friends win and there is no $100 million? What happens in—what happens, A, to the contras, and what happens, in your view, to Nicaragua and neighboring countries if the President's request goes down the chute?

CONTRAS

Mr. **Abrams**. Well, I am reminded of your quotation of Charles Krauthammer who wrote, recently, that except for the contras there would be no force standing between the Nicaraguan army and the crushing of any resistance to them except the U.S. Army in all of Central America.

The first thing that would happen, I think, is that the Sandinistas would crush both the internal and external opposition.

Having done so, I think—and some of the leaders of neighboring countries think—that they would then be completely free to turn to those countries, unhindered, with the full 60,000-man army and 60,000-man militia.

They are, for example, training a unit of 500 Costa Ricans as part of their Sandinista Army. What are those guys going to do when they go back to Costa Rica, and who is going to stop them from doing it?

So I think if you look ahead at what happens if we essentially disband the contras, it is difficult to see precisely how stable democracies survive in Central America. The contras won't disappear overnight. It may take six months. It may take twelve months. It may take eighteen months. But I think ultimately without this kind of support, the Sandinistas with the Soviet materiel that is at their disposal will win.

Mr. **Kemp**. How much Soviet materiel has gone into Nicaragua in the last, say, year?

Mr. **Abrams**. Oh, I do not have the figures in front of me. It is running—the overall assistance is running at $500 million a year. The largest single item in that figure is oil. They now provide all of the oil for Nicaragua, or in excess of 90% of it, and a couple of hundred million dollars a year in military aid.

Mr. **Kemp**. You think the contras would have to disband if the $100 million were not provided?

Mr. **Abrams**. Well, you know, I can give you one example of it. There was a contra leader who had been fighting deep inside Nicaragua, who came out some time ago, about a month ago, and said: "Look, I am not taking 18- and 19-year-old boys back in there to be slaughtered by Soviet helicopter gunships. If you want to give me the wherewithall to defend against them, I want to fight for my country. But I am not taking boys in there to be murdered, to be slaughtered, if you are not going to give me any kind of help."

So I think that is the kind of situation you would find. More people would go in and more would die, and ultimately, the resistance would be crushed.

Mr. **Kemp**. I will tell you what I think would happen, I think we would have to boost the security assistance to neighboring countries. I think it would cost America much more money in aid to Central America if there were not this effort being made to force the Sandinistas to turn inward.

How many contras are there right now?

Mr. **Abrams**. The total number of people who have, in a sense, volunteered, is about 25,000. The number who are, you might say, at this point ready to fight is about 20,000. And there are about 6,000 in Nicaragua right now.

ECONOMIC REFORM IN EL SALVADOR

Mr. **Kemp**. I want to turn to El Salvador for just a moment.

Although not as visible, as my colleague Jerry Lewis pointed out, the support that we have given El Salvador is equally critical to build up a democratic center. Again to quote Charles Krauthammer, this is a third-force strategy—as opposed to authoritarian and totalitarian—a strategy, he suggests, to build up the democratic center. Mr. Lewis, General, was suggesting, that one reason why El Salvador is not quite as controversial is because we have had success in building up a democratic center. And that is this alternative talked about by Krauthammer and I know is shared by Mr. Abrams and the Administration, and indeed, the Kissinger Commission.

It seems to me that why the insurgency goes on—and part of the reason, while it is not all economic to be sure—the economy is still a basket case, and I am troubled by what I read in the newspapers. Let me read to you a quote from the New York Times. Maybe Mr. Ink may want to respond, or you, too, Elliott.

It says, quote, in the New York Times about a week ago: "In what is shaping up as a major political test for President Duarte, he faces stiff opposition from all sides as he prepares to announce a series of sweeping economic measures that include devaluating the currency, the colon, and raising taxes." Continuing, the Times says, "The U.S. Embassy," the State Department, "is lobbying hard for both devaluation and raising taxes."

The President is resisting devaluations and a tax increase here. I assume the State Department agrees with President Reagan every now and then.

Why are we telling El Salvador to do something that is so at odds with what we are telling the American people?

Mr. INK. Mr. Kemp, there is no question that steps taken to deal with economic problems such as in El Salvador and in most of the Latin America region do create internal stresses. And this is no exception.

With respect to the plans which our people are discussing and negotiating with President Duarte and his ministers at the present time, the process is far from completion.

I am not aware, Mr. Kemp, of our people having pressed for tax increases. It is possible that something in that area will be included in the proposal when it comes to Washington for our review. But as of now, I am not going to——

Mr. KEMP. Let me read to you an unclassified State Department message—telegram. From the State Department.

"Many price increases will have to come this year, and the rest will be unsustainable in '87. There also is a need for new taxes in '87 unless a major breakthrough in the armed conflict permits big expenditure decreases and/or the government of El Salvador decides to reduce its subsidies."

I agree that that is not explicit, but it certainly is an implied effort to tighten up on the economy as a way of reducing the budget deficit.

Mr. INK. Yes, the reduction of the budget deficit certainly is one of the areas that we think is important. The subsidies is an area that I think will be included in——

Mr. KEMP. Yes, we all agree with that.

The point I am trying to make is that there is a very steeply graduated tax system in El Salvador. Very steeply graduated.

Mr. INK. Yes.

Mr. KEMP. And by devaluing the currency, you push up inflation. That further exacerbates what we called in 1981 the "bracket creep." And taxpayers in El Salvador, though with low incomes, are being manipulated by the devaluation of the currency, into marginally higher and higher tax brackets, and it is the—the crackdown on the economy, the increase in taxes from bracket creep, or leap, whatever you call it, the inflation, the devaluation of the currency, the 15% interest rates, the price controls on commodities—these are the things that are opposite what we are trying to do here. It is what Asia has done for their development, and it seems to me, these are Third World countries that could use a dose of Asian-Pacific democratic capitalism. And I wonder why the State Department is so actively pursuing austerity policies in El Salvador, which is just causing unemployment to be at levels at which it threatens the social as well as the political stability of the Duarte regime which is so important to all of us who believe in him.

Mr. OBEY. Last response, because the gentleman's time is up.

Mr. INK. Yes, sir.

Mr. OBEY. Go ahead.

Mr. INK. As I mentioned, cutting back on the costs of the public sector is something that we are pressing for, both in El Salvador and in other countries.

We have not been doing that through tax increases. We have been striving for reductions in subsidies. We have been striving to press these countries to get rid of most of the parastatals. For those we cannot get rid of, we are trying to get governments to modernize, improve management, cut excess staff, and that sort of thing.

Our ESF helps to ease and cushion the transition. However you slice it, whatever approach one takes, there is going to be a period of difficulty, there is going to be a period of stress. That, of course, is one of the purposes of our ESF.

Another purpose, of course, is to provide an incentive for governments to take difficult steps.

I would like to stress, Mr. Kemp, that in El Salvador we have had only very preliminary discussions that have not come forward for review. I would be surprised if tax increases are recommended by our staff.

Mr. OBEY. Mr. Mrazek.

Mr. MRAZEK. Thank you, Mr. Chairman.

HELICOPTERS IN EL SALVADOR

Mr. Abrams, have we not supplied helicopter gunships to the government of El Salvador to use against the communist insurgency in El Salvador?

General GAST. We have provided helicopters that have machine guns on them, but not gunships per se. There being a distinction in an aircraft that is designed as a gunship versus one that can have a machine gun put on it.

Mr. MRAZEK. I see.

Are those helicopters, have they proved to be an effective tool against the communist insurgency in El Salvador?

General GAST. We believe they have under the rules of engagement that President Duarte has set up for their control, which is very tight.

Mr. MRAZEK. Would you condemn, on some human rights basis, the government of El Salvador for using attack helicopters against an insurgency in El Salvador?

General GAST. Would I condemn the government of El Salvador for using them——

Mr. MRAZEK. I am sorry. Is there some human rights basis that you could envision for condemning them for using an attack helicopter?

Mr. ABRAMS. Not in principle. It depends how you use them. But certainly in principle, no.

Mr. MRAZEK. Do you consider as a human rights violation the use of helicopter gunships by the Nicaraguan government against the Contra rebels?

Mr. ABRAMS. Yes. For the same reason that I do in Afghanistan. Same gunships.

Mr. MRAZEK. I understand.

Mr. ABRAMS. So I think it is a question of how are you using them, and who are you using them at.

I mean, the rifle in the hands of a Nazi soldier and an American soldier in World War II were different implements. And I would make the same distinction here.

The question is whether you are fighting for freedom or against it. That is the distinction I make.

Mr. **Mrazek**. Well, I guess my point is that it is an effective tool to be utilized against an insurgency in a particular nation. And one can well appreciate why a government uses effective tools at its disposal.

DRUG TRAFFICKING

I am wondering if you could compare the drug trafficking operations of the Sandanista government officials with the drug trafficking operations of the contras, and tell us which you think is more profitable?

Mr. **Abrams**. There have been a lot of allegations including one in I think it is today's San Francisco Examiner against the contras for drug trafficking.

We have said, publicly, that with respect to UNO, the United Nicaraguan opposition, and all parts of it, including the FDN, there has never been any evidence provided to us or to anybody else. And we think that those charges are false.

There have been some charges relating to the Pastora group—not Pastora as an individual, but the individuals surrounding him—which I think have more to them, though there has never been any hint of legal action involving any of this in this country.

With respect to the Sandinistas, I cannot make any kind of estimate about dollar amounts. The information that we have is that they use drug trafficking to help fund their overseas intelligence activities.

We do have the example—I think this one of the photos from the State Department last week—of Mr. Vaughan who was a top assistant to Borge, being involved in drug trafficking.

So there has been some evidence, I think, of Sandinista involvement. Not on the basis of one low-down official; but rather high up.

Mr. **Mrazek**. Well, I am curious. Because the Drug Enforcement Administration has indicated that it does not have any specific evidence beyond the photograph—two-year-old photograph of Mr. Vaughan, who is an assistant to Mr. Borge in Nicaragua—as to the complicity of top Nicaraguan officials in drug trafficking.

It would appear that they have evidence of some cocaine trafficking by elements of the contra forces.

Mr. **Abrams**. Why would that appear?

Mr. **Mrazek**. Because they have confirmed that in fact they have evidence or have received allegations of cocaine trafficking by the Contras.

Secretary **Abrams**. Well, if we are talking about serious allegations, not Sandinista allegations, we have gone to DEA.

There was a news story about a month ago to that effect, and we called DEA and said, you know, we never heard about that, what have you got? And they did not have anything. I mean they had the old allegations against certain individuals around Pastora. But they did not have an allegation that they could give us.

Mr. **Mrazek**. Are there fresh allegations in regard to the Sandinistas? When you used the term "old allegations against Pastora," are you contrasting that with fresh allegations against the Sandinistas?

Secretary **Abrams**. There is some more. This picture——

Mr. **Mrazek**. And you say a long picture?

Secretary **Abrams**. Which is about two years old, yes.

Mr. **Mrazek**. Could you comment on those allegations?

Secretary **Abrams**. Well, it is really something that I would urge you to address to the Intelligence Committee because it is information that comes through intelligence sources.

Again, as I recall it, it does not tell you much about the scale measured by dollar amounts, but it does tell you a little bit about the involvement of fairly high level officials.

ATROCITIES

Mr. **Mrazek**. On February 20, 1986, the New York Times reported that a land mine tore through a pickup truck carrying 17 civilians, and that a rebel band waiting in ambush then opened fire. Five women, ranging in age from 28 to 70 years old, were killed, according to the New York Times, as well as a Swiss agronomist who had been working in the fields for three years.

Is this the type of incident that one can ascribe to Sandinistas carefully disguised as Contras committing atrocities that then give the Contras a bad name?

Secretary **Abrams**. Well, it is very difficult to know that there have been such incidents. We have some confirmation of Sandinistas doing it and trying to attribute it to the Contras. I have no indication that this was such an incident.

Unfortunately, I did not bring with me the information we do have about that, which I would like to, insofar as it is not classified, put in the record.

I would also like to note that there has been a massive increase, and this is on the public record, a massive increase in the use of land mines by the FMLN in El Salvador. This is a subject which has yet to find itself to be of any interest to U.S. human rights groups. But the fact is that a very large number of civilians are now being targets of land mines. It is a kind of switch in tactics by the FMLN which did not use to do this. You see an awful lot of that now in El Salvador.

But I would like to give you more on that incident for the record.

[Information follows:].

Inserted/[illegible] p55

United States Department of State

Assistant Secretary of State
for Inter-American Affairs

Washington, D.C. 20520

Dear Mr. Chairman:

During my testimony before the House Subcommittee on Foreign Operations on March 18, you cited a New York Times article which reported an incident in Nicaragua in which "a land mine tore through a pick-up truck carrying 17 civilians." The article implied that the democratic resistance forces were responsible for this incident which killed five civilians, including a Swiss agronomist. As I indicated at the time, I would like to provide you with additional information which refutes these allegations.

Reliable sources inform us that there were no elements of the Nicaraguan democratic armed resistance in the area of Somotillo (the area where this incident occurred) on the date of the incident (February 19), or for several months prior to that time. Furthermore, the border between Honduras and Nicaragua has been mined extensively by the Sandinistas to thwart the efforts of the opposition forces and to prevent the exodus of refugees, particularly draft-age youths. Somotillo is one of the areas that have been so mined. Members of the armed resistance are aware of this mining and have on numerous occasions located and disarmed land mines. Nonetheless, the extent to which the area has been mined makes a certain number of deaths inevitable. Three members of Honduran border patrols were killed in January by Sandinista mines planted within Honduran territory. Numerous persons fleeing Nicaragua for refuge in Honduras have also been killed by these mines. While we cannot offer the proof that might identify the perpetrators of this crime, we can say with reasonable assurance that they were not members of the armed resistance.

The Honorable
David R. Obey,
Chairman, Subcommittee on Foreign Operations,
Committee on Appropriations,
House of Representatives.

At the hearing you also stated your intention to include in the record the statement made last year by Lt. Col. Edward L. King (USA,retired) to the effect that the Sandinistas do not pose a threat to their neighbors because they do not possess the technical and logistical capabilities to carry out and support an invasion, and that they are unable to overcome geographic disadvantages inherent in such an invasion. The Department of Defense will shortly provide you with a separate commentary on these statements.

I hope this information responds to your concerns, and am at your disposal to pursue any of these issues in more detail.

Sincerely,

Elliott Abrams

(Clerk's note.—As of June 12, 1986 the separate commentary from the Defense Department has not been received. The Committee has been informed orally that the material is being prepared and that it will be classified.)

Mr. **Mrazek**. Do Contras utilize land mines as a technique to disrupt operations within Nicaragua?

Secretary **Abrams**. My understanding is that they do not do it a lot. They do not have a lot of land mines. But it certainly has happened.

Mr. **Mrazek**. Would you consider when a land mine takes the lives of innocent people that that kind of terroristic approach is not something that we ought to be condoning or supporting, regardless of where it takes place?

Secretary **Abrams**. We should not condone any kind of terroristic approach. But I would need to know more of the details about where the land mine was to know whether it was terrorism.

THREAT ON NICARAGUA

Mr. **Mrazek**. Can you comment on the offensive threat that President Reagan talked about as far as a potential invasion by Nicaragua of its neighbors and its capability to mount such an offense if threatened?

Secretary **Abrams**. Well, I am going to ask the General to jump in.

I think you should remember first that, for example, Costa Rica has no army, and it is essentially defenseless in front of that 60,000 man army. Honduras has a very small army. They have traditionally relied on airpower to keep the balance of power. And my memory is that the militia and army of about 129,000 in Nicaragua is something like five, six, seven times as large as the Honduran army and also much better equipped. So that is another problem.

The Salvadorans at this point, I think, are probably better able to defend themselves, where they are in a kind of a cross-border attack, that is across the Gulf of Fonseca. But it is subversion that is probably a greater problem in El Salvador

Honduras, I guess, is what we are saying 13,600, if I can read this color chart right, 13,600 in the army versus 62,000 in the Sandinista army. So it is a pretty big difference.

Mr. **Mrazek**. I guess it is hard, sometimes, particularly if one has never been to Nicaragua, as I have not been, and one tries to listen to a variety of different people who come back and appear to have some credentials to make a determination of military capabilities.

Recently Colonel Edward King addressed a number of Members of Congress on the subject, and suggested that the military capability right now of the Sandinista army is primarily defensive in nature, geared to counterinsurgency, reasonably effective at it. But that they do not pose the kind of significant threat, at least as far as their equipment is concerned——

Secretary **Abrams**. One hundred and fifty-five tanks.

Mr. **Mrazek**. Well, he suggested that they barely have gas to mount up an——

Secretary **Abrams**. I would not dispute that. But that is an easy thing for the Soviets to remedy.

The tanks are there. The gas is a lot easier to bring in. And the same tank driver who can drive a tank defensively can probably drive it offensively.

Mr. **Mrazek**. Well, we learned in Vietnam that when you do not have a lot of roads to take those tanks along, they create a problem as far as deploying them. And I guess there are some areas in Nicaragua where tanks can be an effective tool and other areas where they might not be.

SOVIET ARMS IN NICARAGUA

But, in any event, as far as the military equipment itself, the hardware that has been sent by the Soviet Union, would you consider that to be more geared towards defensive approach or an offensive approach?

Perhaps, General, you can tell me that.

General **Gast**. The arms and the kind of arms that have been provided to Nicaragua through Cuba by the Soviet Union are far in excess of the needs to defend against democracies around them that we have helped to build and have helped to encourage.

There are avenues of approaches that these 125 or 50 tanks can take. There are those sophisticated helicopters, which are also in Afghanistan, that can fly across the borders. The kind of equipment that has been provided and is being provided is not a defensive force in nature. The Soviet Union and others would argue that it is a defense force in nature, and that would be the difference in our point of view.

So they do have the capability to come right through this area and they also have the capability to go in to Costa Rica.

The point that was made by Mr. Abrams and others is that in this strategic location, our friends around the region who do not want to be invaded and who want to support themselves against invasion and maintain a deterrent do not have the kind of equipment provided by the United States to date to repel any kind of an invasion.

So the effort that has been provided by the President in support of this one right here is complementary to that. And I quite agree with Mr. Kemp that if this were to remain unconstrained, it would be a considerable amount of turmoil and threat to the region.

Mr. **Mrazek**. Thank you, General.

Secretary **Abrams**. Just to give some numbers, rough numbers, about 250 armored vehicles, meaning armored personnel carriers and the like in Nicaragua, about 155 tanks, and in the rest of Central America there are five tanks in Guatemala, zero in Honduras, El Salvador and, of course, Costa Rica.

Mr. **Obey**. I would suggest to the gentleman from New York that if he wants to have an estimate, a military estimate which gives a somewhat different picture than this one, he can simply refer to last year's testimony, when I pointed out what a couple of moderately well-organized aircraft attacks could do to the ability of those tanks to do much of anything.

Mr. **Edwards**. Thank you, Mr. Chairman.

THREAT OF SANDINISTAS TO NEIGHBORING COUNTRIES

Mr. Secretary, I have another question I wanted to ask before this one, but in light of the question by my colleague just a moment ago, I wonder if you could outline the threat that the Sandinistas pose to their neighbors like Costa Rica, Honduras and others in ways other than by direct invasion. Aren't there many ways in which you can threaten your neighbors and, in fact, bring about the downfall of a neighboring government without rolling those so-called defensive tanks across the border?

Secretary **ABRAMS**. El Salvador is the best example I think.

There is no invasion of El Salvador. What there is is subversion, the constant flow of materials across the border plus, of course, safe houses which is important psychologically and which is important materially for the FLMN.

It is still the case that the FMLN headquarters is in Managua. It is still the case, for example, that when a negotiation took place for the release of President Duarte's daughter, the FMLN negotiators had to telephone Managua to get instructions from their leaders who live in Managua.

If you look at the economic situation in El Salvador, why are they not doing better, and why is it so difficult to reconstruct? Well, there is a war on in El Salvador. I do not know of anybody, I really do not know of anybody in the U. S. press or in the U. S. Diplomatic Corps, or in the Salvadoran Church, or in the Salvadoran Government who now believes that there is very widespread support for the guerrillas. They were the ones once but now the Duarte government has sort of taken hold and it has a great deal of popular support and the guerrillas do not and their numbers are down. Yet they go on. And why do they go on? I think the answer is they go on in perpetuity as long as the Sandinistas support them.

Costa Rica is much more defenseless, because Costa Rica has just two small police forces. It has no army. And until now, from the time it abolished the Army, about 40 years ago, until now, it has not ever had that kind of security threat.

But as I noted, I think, before you were here, there is a group—there is a unit of 500 Costa Rican Communists training with the Sandinista army, fighting with the Sandinista army. Where are they going? What is their next stop? What is their mission around the corner? And who is going to stop them if they go back to Costa Rica as a well-armed integrated unit?

Mr. **INK**. If I might add to that, one of the problems that we see in economic recovery is the difficulty of attracting capital into these areas, particularly El Salvador. It is very, very difficult to attract capital. When a firm leaves, it is almost impossible to get another one to come in where there are emerging threats of terrorist and guerrilla activities. That is certainly a heavy damper upon not only the capital coming in, investments from outside those countries, but also on strengthening the private sector within those countries.

Mr. **EDWARDS**. I have had the opportunity to spend quite a bit of time in both El Salvador and Guatemala, in part to see what impact the guerrilla activities in those countries were having on the ability to carry out their economic policies. A part of the problems they have had in both of those countries I think was directly attributable to outside funding and support of indigenous guerrilla movements.

I met with a constituent in my office yesterday, and made the point in terms of aid to the Contras, that as far as my own personal concern is, I am not bothered simply by the fact that there is a country in Central America which has a system of government that is not like ours. I am bothered terribly by the fact that they are trying to undermine their neighbors, all of which are freely-elected democracies. If there has been any place in the world where we have had a successful foreign policy, it has been in Central America.

When I came to Congress, all of those countries down there were dictatorships. They were repressive oligarchies. Now they are freely-elected democracies. I wanted to respond to the gentleman's comments by saying that an attack on those democracies can take many forms other than with defensive tanks.

HISTORY OF NEGOTIATIONS

I have one other question, which is what sort of track record we have on the history of negotiations? A lot of the people who have been critical of the request to assist the Contras have said, oh, let us talk—instead of finally doing something, we need more dialogue. Maybe I am wrong. My information has been that we have talked, and we have negotiated, over and over again. Mr. Shultz has talked, and Mr. Shlaudeman has talked. It is sort of like the Soviet missile buildup: if we talk, they go ahead; if we do not talk, they go ahead.

I wonder if you could give us some background of what the United States has tried to do as a negotiating team?

Secretary **Abrams**. I think there are two examples which show exactly why they will never change their behavior except under pressure.

The first is President Carter. In the first year and a half of Sandinista rule, at which time President Carter was President, we gave them $130 million worth of aid. Far from threatening the revolution, we paid for it.

Then their action of that 18-month period was to ally themselves with the Soviets from Cuba. It was to start voting with the Soviet Union at the U.N. and was to begin the subversion of El Salvador, which was a stated reason why President Carter cut economic aid to Nicaragua. They rejected the Peace Corps, which we offered them if he had to send the Nicaraguan youth to the Isle of Youth, so-called in Cuba, all of this in a period in which we were actually not only talking to them, we were paying for all of this.

But there was a second time too. In June of '84, Congress cut off all assistance to the resistance. And roughly that period, the summer of '84, that is when Secretary Shultz went to Managua and we began the so-called Manzanillo talks, the bilateral talks, of which we ultimately had nine sessions.

So there is an opportunity for them. The pressure is off. Shultz goes to Managua. There is the opportunity for them to show that they want to negotiate. Summer of '84.

November of '84, instead, the first Soviet helicopter and gunships arrive. So I think we have seen that words, good intentions, even money have not affected their behavior. And thus we come to the view that though we will pursue the negotiating track, as long as they think they have got a military track, they will laugh at the negotiating track and just go down the military route. We have just got to close that off for them.

Mr. **Edwards**. Thank you. Thank you, Mr. Chairman.

Mr. **Obey**. Mr. Edwards.

Mr. **Edwards**. I just did it.

Mr. **Obey**. I am sorry. Mr. Lewis. I remember you.

Mr. **Edwards**. I see you were hanging on my every word. [Laughter].

Mr. **Lewis**. Thank you, Mr. Chairman.

LATIN OPINION ON U.S. POLICY

Gentlemen, I would like to begin with a question that the Chairman of our Subcommittee closed with for I think I may have disturbed his general line of discussion enough that you did not have enough time to respond as extensively as I would like to this question.

One of the strong arguments being made around here by those people who would limit or reduce or eliminate our involvement in economic and military assistance to Nicaragua, involves the public fact that most of our friends that surround Nicaragua are not willing to publicly state their support for our involvement in an economic or military sense in Nicaragua. Indeed, they take just the opposite position, and they suggest if you will have a private conversation with them in the back lawn at an Embassy, they will discuss with you what they really think.

Frankly, friends, it is a bit late for that kind of approach to be a difficult problem. If the strongest argument being used among some of my colleagues is that none of our other friends want us there, and that is effective swing votes, and the vote will be close, then I think we ought to get to the point where we have had enough. And we say to those people your sensitivity is fine, your politics are fine, but what are you going to ask us to do when those same forces are in your country?

Mr. Chairman, I think that the question you were asking is important enough that we ought to invite some of those Ambassadors here to testify on or off the record. Why can they not publicly support America's giving assistance when it seems to be obvious that force and violence is being applied in Nicaragua from another source?

Can you give me some feeling for that?

Mr. **Obey**. Maybe they think it is nuts.

Mr. **Lewis**. It may be. It may be. But I sure wish they could tell us why it is so nuts.

Opinions vary. There is no single Latin American opinion on this question.

Some Latin American leaders have said to me privately, your Contra policy is wrong and you should stop it right now. Others have said to me your Contra policy is wrong because you should invade right now.

Between those two, there are a wide range of views as to what is the proper policy. I think first we ought to distinguish between the so-called contadora countries and Central American countries. The contadora countries do not have any greater right to express their views about Central America than we do. A number of them are much further away from Central America than we are. And their views, again in that group of eight, differ. But why do they sometimes say something different privately than they do publicly?

First, I think some of them do not want to get out in front of us. "You have not made your decision yet. You collectively, Congress. You are asking defenseless or nearly defenseless countries to get out there and take on the Sandinista regime publicly and call for what amounts to indirect military action against them, when Congress has not made up its mind yet on whether to do so or not."

So they are waiting to see whether we are going to drop the other shoe. It is one thing to ask them to follow us or be with us. It is another thing to ask them to get out in front of us. Now, they do understand that this is a Soviet and Cuban intervention. And to ask Latin American countries to take on the Soviets and the Cubans, if we are not willing to do so, I think it is a little rough. They do not have the power and I believe that is a large part of the answer.

Mr. KEMP. Jerry, could the kidnapping of Jose Napoleon Duarte's daughter have been a signal by the Communists in Central America that they were telling moderate Democratic leaders to keep their head low on this issue? I am not suggesting that there perhaps is a direct link, but is it not true that that was a terrifying signal to other leaders who are defenseless when the daughter of Duarte was kidnapped in daylight, and you said the telephone calls were between Managua and——

Secretary ABRAMS. And Panama which is where the negotiations took place.

But I think that is right. I think there is an element of having it, you know, where you can make speeches that make you sound as if you were opposed to any intervention. But then, privately, you say, you know, by the way, there is a Soviet intervention and something needs to be done about it.

There is a conflict here for Latin America, and as one Foreign Minister put it to me, on the one hand, we are always opposed to American intervention in Latin America. It is a matter of principle. On the other hand, we are equally opposed, if not more so, to Soviet intervention in Latin America. And that is what this is in the case of Nicaragua.

So what do you do about it? Well, in this particular conversation—I will not mention the country—the Minister said, well, you should take the risk. You should not support the Contras. You should just pursue the Contadora negotiations and hope that they pan out and that there is a good settlement. And I said great, and if that works, that is terrific, that is the best outcome. What if it does not work? Two or three years down the road, Contras are gone, they have been wiped out by the Sandinistas, and then the Sandinistas continue the subversion of their neighbors. What do we do? And he said, well, then you invade.

Mr. LEWIS. So then you invade.

I really was trying to make the point because discussion is taking place on the floor right now. And yet the people who are asking the questions, my colleagues, are not receiving the information that says there are reasons why these friends must keep their heads down.

I heard for the first time in a public meeting from you today that there were 500 Costa Ricans being trained in Nicaragua. I guess that is not intelligence information.

In this chart, which you present, it shows a variety of colors, but one of them involves countries where arms originating in Nicaragua have been found, and I presume the lighter color says that arms have been found and training has taken place. The color graph indicates that the countries involved where arms from Nicaragua have been found are Guatemala, El Salvador, Costa Rica, Colombia, the very countries that we are talking about who were not willing to say America ought to be involved.

It seems to me that this sort of open dialogue is needed by our committees. We have yet to have those kind of people come into our Subcommittee, and it is about time that we consider doing this, whether it is closed door or open door discussion.

Let us see. General, I am not really as up on the military as I ought to be, but unless I am mistaken, one of the medals you have on your chest involves a Vietnam service ribbon which would indicate that you had at least one that looks to me like two tours over there.

Is that accurate?

General GAST. I served in Thailand, sir, during the Vietnam conflict.

Mr. LEWIS. I see. Thank you.

Well, that did not help very much.

General GAST. But I know something about Vietnam.

Mr. LEWIS. It was just really a light point.

SOVIET BUILDUP IN NICARAGUA

It seems to me, if I am recalling history correctly, that following 1972, the Viet Cong had all but disappeared. And the thrust from the north was armor lead tanks, largely leading the NVA. I remember those pictures of the tanks plowing through the palace in Saigon. I suppose that they were not significant in that operation. They just had them out there for fun. But I think the point for the record is important, that those tanks can be gassed up and headed in a different direction. And the only military equipment available to stop those tanks presently are the Soviet gunships

I wonder if our allies, the military leaders of our allies surrounding Nicaragua are similarly protesting to the Soviet Union their concern about the Soviet buildup in Nicaragua?

General GAST. Not to that extreme extent.

I would also add that those tanks rolled when the United States withdrew its support for political reasons from South Vietnam. They did not roll until then.

Secretary ABRAMS. Well, two years ago, it would have been by El Salvador instead of the rest of South America.

Ecuador's economy seemingly has shown some very significant movement in a positive direction from our perspective, growth in the private sector, individual opportunity, et cetera.

ECONOMIC REFORM IN ECUADOR

Mr. LEWIS. To what extent is Ecuador a reflection of past American AID policy and program, to what extent is Ecuador an illustration of our policy positively at work? If it is a reflection of positive policy, are we effectively replicating that in other parts of Latin America?

Mr. INK. Yes, sir.

I do not qualify as an historian, having been with AID for only five months. But I will answer your question in this way:

The strong leadership in Ecuador, and the actions that they have taken with our assistance, I think, is what has made things happen. The courage on the part of the leadership and the right decisions would have been extremely difficult, and the stresses would have been extremely serious had we and also other donors not been able to provide help to cushion the transition.

I would give high credit to the leadership of the country, but I would also say that I think the assistance from AID and other donors helped greatly in making the reform process succeed.

Mr. LEWIS. I think most of us have been impressed with what seems to be the potential impact of American military training among leaders, among our allies, in terms of the potential extension of democratic opportunity.

General Ramos in the Philippines, who received his training at the academy here, is illustrative of the point.

I would ask a question that parallels my interest towards Latin America.

MILITARY TRAINING

Do we have extensive training of Latin American military leaders in the United States, or that we support—I am specifically interested in the School of the Americas in Panama. Are we going forward with that and what is the future?

General GAST. Yes, sir, we do. And I might go back even further.

One of the strongest elements of our program toward El Salvador—and you may recall, Mr. Lewis, even when we had very little funds, up to as much as 15 to 20 and sometimes 25 percent of the budget we requested from Congress—was always dedicated toward that because we knew in the longer term whether El Salvador was to make it or not and strive for democracy, their military had to achieve professionalism and training.

Many of those military personnel as you recall, were trained at the RNTC as well as in the United States. There is a heavy training program under the IMET program for all of Latin America, and many of those students come to the United States. We prefer they come to the United States when they can, rather than be trained in the region.

We have about 1,300 students per year that come to USARSA. That happens to be located at Fort Benning right now. Among those are some 300 cadets from El Salvador per year. There are some 14 countries that are represented there. Many of their professional courses cannot be provided anywhere else except in the United States. It turns out that the cost of doing the training here in the United States, in this case, happens to be far less than if we trained in the region. Nevertheless, we are setting up the National Training Center in El Salvador because we lost the RNTC. We could not make that work. There we have some advisors helping them, with heavy stress on human rights.

In almost all countries, even in South America, we have senior leadership that was trained here. There are several people in high places of government, both military and nonmilitary, who were trained here.

One of the things that I failed to mention in my presentation for the justification for our program this year was that the IMET program was reduced last year from 56 to 52 million. Yet the cost of training is going up, and we are back in this year asking for some 66 million on a global basis to maintain the training such as you mentioned. I believe that the Congress has well supported the IMET training program and other training programs.

Last year, you know, we were able to get through the Committee the authorization to exclude military salaries from MAP funding for training. So we consider it a very important element of our program.

NONMILITARY TRAINING

Mr. INK. I would like to add that we have a very active training program in the nonmilitary area, we provide training both in country and in the United States. For FY '86 about 4,000 individuals are coming to the United States for short-term and long-term training. A.I.D. training in Latin America and the Caribbean has grown more rapidly than any other part of the world.

NEGOTIATIONS

Mr. OBEY. The gentleman's time has expired.

Mr. Secretary, the question in my mind is not whether we should be putting pressure on the Sandinistas. The question is whether we should be doing it smart or doing it stupidly. That is really the question that we face.

It seems to me that if we were going to have a sensible policy—the question is whether your policy has a snowball's chance in you know where of succeeding, given the resources, that you are telling us would do the job. That is the real question. It is not whether we like the Sandinistas or whether we do not. It is a question of whether our policy matches our rhetoric.

And in my judgment, if we really had a smart policy toward the Sandinistas, what we would be doing is admitting the fact that the Contras are in no shape at this point to fight anybody. They are not an effective fighting force. And they are not going to be with $100 million in my judgment. And what we would be doing is saying, to our allies—some on this side of the table are complaining about what we would be saying—okay, boys, you want us to participate in negotiations, fine. Let us move Contadora from the series of generalized approaches to a series of specific proposals. There is only one way we are going to do that and that is if Uncle Sam gets in the driver's seat rather than letting this continue to blather around in a generalized fashion as it had been without our leadership on the negotiating front.

Secondly, what I would do is to try to create pressure on the Sandinistas is to say, okay, during the time we are really serious about negotiations, we would try to get the Contra forces retrained so that they would be a threat to somebody militarily. I do not believe they are right now, and I do not believe they will be with your money. Or if your request is approved, and what I would try to do is to focus on the fact that these fellows are nasty enough and determined enough and hardnosed enough that they are always going to tell us to go to hell in a hand basket when we are trying to influence what they are doing within their own country. I believe that anyway. I believe they would rather lose the revolution and go back in the hills and harass people for 30 years than to do something reasonable to provide an opening up for their society. In that sense, I am more of a pessimist about the Sandinistas than I guess you are.

But I do think that we have got a legitimate right to suggest that pressure can and will be used if they do not clean up their act in terms of their cross-border conduct. And to me it seems the purposes of negotiations ought to be aimed at getting agreement on force levels, getting an agreement on advisors both on their side and on our side, getting an agreement on verification and doing that through the negotiating process which the Cuban neighbors—I mean which Nicaraguan neighbors say they want us to follow.

And then frankly, if you want to have some real effect inside Nicaragua, I would run a covert operation or two to try to shake up that system by providing whatever under-the-table assistance you can to split up their own political system six ways. That is what I would do, rather than asking Congress for a piddling $100 million that is not going to do anything except grind us along on a low-level conflict situation a la Vietnam, where you do not have enough resources to do anything significant but you do have enough resources to try to get us into a lot of trouble. That is my view.

Secretary Abrams. Mr. Chairman, could I respond to one part of that?

Mr. Obey. Sure.

Secretary Abrams. I think you have been unfair to the Central Americans in saying the only way negotiations are going to work is if Uncle Sam takes them over.

The attitude of especially the Hondurans and Salvadorans on the Contadora negotiations has been extremely serious, very toughminded, and very good. The problem is not that they need guidance from us on how to figure out how to make verification work. They are pretty clever. And they are closer to it than we are. It is their necks that are on the line.

I would argue that the problem is this. Why has not Contadora worked? The Contadora objectives include internal democratization in Nicaragua. And if you talk to the other Central Americans and ask them why is that your business, the answer they give you is because it is the only way to guarantee that those agreements you make with the Sandinistas work.

If you are not going to build a Berlin Wall or a 30,000 man career force down there, then the only real verifiers and guarantors are the people of Nicaragua. If they can speak and if they can assemble and if they can vote.

Mr. **Obey**. I would simply say, Mr. Secretary that I think if anybody believes that they are going to, through negotiations, get the Sandinistas to change from being some pretty nasty people to goody two-shoes domestically, I would nominate them for permanent President of the National Optimists Club. I just do not think that is going to happen. And I think there are other more effective ways of trying to do that besides limp-wristed negotiation efforts. But let me ask you some specific questions.

Mr. **Obey**. You indicated there would be roughly what number of advisors?

Secretary **Abrams**. I think that I said roughly four dozen, I think. Roughly the same number as in El Salvador, but in El Salvador they are advisors. Here we are talking about trainers, not advisors.

Mr. **Obey**. Do you anticipate any U.S. personnel doing any of the training inside of Nicaragua?

Secretary **Abrams**. Never, under no circumstances.

Mr. **Obey**. I would just note that in contrast to your comment about what would happen to the Contras, if this money is not approved, General John Galvin, who is Commander of the U.S. Southern Command in Panama, who said on March 11, in an interview in the Washington Post, that "refusal to provide military aid would not doom the Nicaraguan rebels, they are not going to collapse if we do not give them something."

Secretary **Abrams**. Well, I will agree with the collapse, as I just said. I just think the outcome as you go down the road would not be in doubt.

Mr. **Obey**. Let me say something, because frankly, if it were not so tragic, I would chuckle at the raising of the drug issue they are trying to justify some of this.

DRUG INTERDICTION AND ERADICATION

We have had enough hearings to know that we are not making one lick's worth of progress on drug interdiction. And we have had enough people testify to convince me if we doubled the Administration request for drug interdiction, for the anti-terrorism program—and we increased the Administration's request for anti-terrorism funding last year, you know—if we did that again, we would not be making a lick's worth of progress.

Because, as you know, that drug situation has a life of its own. If we were to get lucky enough to squeeze the drug traffic to any great degree, about the only thing we would be doing is raising the price of what is left, so that people still making a buck off of it, will make as much as they are making now.

We have had testimony indicating that an appalling small percentage of drugs aimed at this country are ever interdicted on an across-the-board basis.

Secretary **Abrams**. This is not interdiction money though. For the most part, it is eradication money.

Mr. **Obey**. I understand that.

Secretary **Abrams**. And some of that—I mean, take Colombia, the figure I was looking for—the 1985 marijuana crop; 67 percent destroyed. Belize started aerial spraying.

I think your fundamental point is correct. It can be demonstrated by the economics of it.

Mr. **Obey**. But I want you to take a look at the testimony before us. Believe it or not I do read what people say before this Committee. Sometimes it is pretty dull and sometimes it is pretty interesting. And the fact is, that if you read what they said before us last year, you would find out that you start running down those drug producing countries and you start comparing the hectares that we put out of business versus the hectares that they put back in business and it is a pretty miserable situation, as you know.

On virtually a country-by-country basis—and if anybody seriously thinks that this budget is going to do a blasted thing about that, they are smoking something that is not legal.

It just is not going to do a blessed thing, unless we get a whole lot smarter or a whole lot luckier about drugs. And I doubt that is going to happen.

Secretary **Abrams**. I think you are too pessimistic on that one, too.

Mr. **Obey**. Well, then I would invite you to really examine closely what some of your own Administration witnesses have said on the subject.

Secretary **Abrams**. Well, if you look at cocaine, for example, it is clear that the price is not going up. The price is not going up and the supply is probably stable or increasing. I am aware of that. The traffickers have tremendous resources and are able to move around a lot faster than we are. It is harder to get a country of this group to go ahead and eradicate it in an area, than it is to followup to the next area and get that area where there is new planting and eradicate it, too.

They move fast. We close off the western Caribbean lanes and they move to the eastern Caribbean. The government of Colombia has a huge program so they start moving down into Brazil.

That does happen, but that does mean that there is pressure on them if they feel forced to move and it means that if we can expand our efforts then we can have an impact.

Mr. **Obey**. Well, your own witnesses told us yesterday, that if we squeezed the balloon one place, it just bulged in another and there was virtually no progress in preventing the interdiction of drugs into this country.

I mean you and I both know what the percentage of drugs are that we managed to stop coming in and it is a very tiny percentage of——

Mr. **Ink**. Mr. Chairman, the problem is a very serious one. I would only suggest that if we were to stand aside, and let countries such as——

Mr. **Obey**. Did you hear me say that, that we should stand aside?

Mr. **Ink** If we do not try to deal with the problem——

Mr. **Obey**. Did you hear me say that we should not try to deal with the problem?

Mr. **Ink**. No, but what you said was that this was not going to help any.

Mr. **Obey**. That is correct. I said, I do not think that the result, I do not think that you will deny one dollar to a drug trafficker. And I do not think that you will increase the percentage of drugs that we stop from coming in to this country by one percent with your program. And your own witnesses do not think so either.

Mr. **Ink**. I cannot speak to that program, Mr. Chairman, but I do want to say that in Bolivia, where a new government has come in, I think a very good government, a very courageous president has come in and is taking some steps that were long overdue. That government and its capacity to move forward has serious problems because of the drug trafficking, and because of the drug factories that are located in Bolivia. That government has taken a stand and is taking actions which have not yet resulted in statistically high eradication.

But I would certainly argue that the new government warrants our strong support and I would hope that we could do more.

Mr. **Obey**. I would like to see proof that what this will do is have any results. I mean it is one thing to have sainted goals; it is another thing to know that those goals are going to be matched with some results if you apply a certain amount of resources to achieve those goals. And the testimony in the last two years has not indicated that.

Secretary **Abrams**. But, if for example, you were able to eradicate, in marijuana, and ultimately in cocaine in, say Colombia. That does not mean that those traffickers do not go to Ecuador. But it has an enormous meaning for the stability of democracy in Colombia.

So, that is not a small achievement.

STABILITY OF LATIN AMERICAN COUNTRIES

Mr. **Obey**. Well, let us talk about the stability of those countries. I agree very strongly with Mr. Kemp, on the one point that he makes. And that is, that I think the policy of the Administration in dealing with the economic shambles presented to us in Central and Latin America, is wholly inadequate to the task.

And he did not say that so I do not want to say that he said that, but he certainly indicated that we ought to have a significant change in the way we are squeezing the economies of those countries, if we really want them to survive as democracies.

And that, I fully agree with.

Let me just be devil's advocate. Again, every day, by virtually every witness, no matter what part of the administration they come from, as they have come into this Committee, they tell us, boys, you have got to provide this money, it is needed and here are the goals; we have got to attack poverty; attack inadequate education; we have got to get economic progress; we have got to strengthen the military of these countries.

All are great goals. Then when you take a look at the impact that this money really has, if you are looking at what is happening in the whole pool, it is pretty miniscule.

Net capital outflows, last year, from the entire region, just to repay interest to banks, including American banks, were about $40 billion in this region. Now, under those circumstances, I tell you what bothers me about the Administration's policy. I was told yesterday that the President is spending virtually full-time on the Nicaraguan issue. I think, if that is the case, that is a perfect example of the warped attention this Administration is giving to problems in this region. Because we have this incredible capital outflow, and we have got an economic situation which not only continues lousy educations, continues disease, continues lousy economic development, but we have also got a situation down there which results in their being unable to import American products. And that does not just threaten their economic stability, it threatens our economic ability to grow as well. And it is without question the most serious problem we have got down there.

The Communists are not going to do very well in any place where you have got reasonable prosperity. And they do not have anything to offer to a country that runs reasonably well. And yet, we have the Administration focusing this tremendous amount of effort on a lousy little $100 million; a lousy little two-bit military operation called the Contras. When you have got a multi-billion dollar economic crisis on our hands down there. And I guess, what I wish I would see, is I wish I would see the Administration apply the same zeal, the same passion, the same resources, the same energy to attacking the problem of Latin American debt, as they are spending to attack this problem.

The Sandinistas would not have a snowball's chance in hell of impressing anybody if we put enough resources in to strengthen the economies of those areas.

But we are not going to put those resources in there through a foreign aid bill. Because what we can put in through direct foreign aid is so small, it is laughable. The only way you are really going to have an increase in resources, Mr. Secretary, is if we do something much more dramatic, much more broad-based than the Baker Plan, to provide a real reduction in the amount of interest that those countries have to pay to American banks and other banks throughout the world.

And unless the Administration gives that as much focus as they have given the Nicaraguan issue, we are going to continue to drift along with this grinding little war.

ECONOMIC SITUATION

And not do anything to significantly change the direction of future economic events in that area.

Secretary **Abrams**. Well, I disagree with that. I think, first of all, the President is devoting time to the vote that will take place this week. When there is an economic summit, he devotes the days prior that summit, to the economic issues that are coming at the summit.

His calendar responds to the real-world calendar and to the Congressional calendar. Also, I think it is a false analogy because in Latin America, we are not able to control the internal economic policies of sovereign countries. But what we are trying to do here is to make our own decision in Congress.

Now, I think the one place where I think you probably—I was going to say another place where we disagreed—maybe we do agree, is that money alone does not solve the economic problems of those countries, of the debtor countries.

And for one thing, they could get a lot more money and it could immediately flow out again in captial flight. It does no good at all to have additional debt that just flows right back here as capital flight. If the relief from debt obligations flows right out again, as capital flight, you have not accomplished anything. So, the debt relief is not the key. The key to growth, in our view, is internal economic reform—to adopt policies that are going to work. Without that, you can give them $5 billion and it is not going to matter.

Mr. **Obey**. I do not disagree with that. My point is that I have not seen the Administration devote nearly the attention and resources to that problem that they have devoted to this one and I think it shows in the results.

We are looking at a 9 percent reduction in per capita income in that region since 1980.

Secretary **Abrams**. Part of the problem is—it is fun to beat up the press—but the fact is that the press is following this issue rather carefully, and it is not following the issue of Latin American debt, which is considered to be much more boring.

So, the degree to which——

Mr. **Obey**. If the President went on television and gave a speech on Latin American debt and explained what it means in terms of lost American jobs as well as our future national interest down there, I think maybe you would have the press paying a little bit more attention to it.

Secretary **Abrams**. The problem is that it is not a problem that can be solved here, in Washington. Here is where I disagree with you on the negotiations in Central America. We should not take this role of attempting to solve all of those problems and tell the South Americans, we know how their economy should be run. We are not going to come up with the resources. The resources are coming from the international financial institutes and from private banks. It is not even our decision to make. And the real important decision is the internal decision on their part, by democratically elected presidents, as to what they are going to do to get their economies in shape—as in Brazil, as in Argentina, as in Uruguay, as in Bolivia, and they are doing it.

Mr. **Obey**. I would suggest that if you do not provide some incentive by way of a lot lower interest payments to them if they make those decisions, they can be very reluctant to make them.

Secretary **Abrams**. A year ago, you would have probably come up with a figure for lower interest payments, which at this point, I might say is the figure for the reduced price of oil. The numbers change fairly frequently. What is key, I think, are the economic policies that are being pursued.

Mr. **Ink**. We are, in this budget, proposing to provide, substantially more funds to help their economies than the $100 million.

Mr. **Obey**. That is my whole point. My whole point is that you could wipe out every dollar in this budget for economic aid, and military aid, the whole business. And it would not have as much effect on those countries and those economies, as a change in the Latin debt situation.

When you have got $40 billion coming out and you are trying to send a billion something back in, that does not mean beans. You are playing around the edges of a problem.

Mr. **Ink**. Mr. Chairman, I will not disagree with you on the importance of the debt issue. All that I wanted to point out is that a substantial part of this budget is designed to help provide incentives to the governments of Latin America and the Caribbean to improve their internal policies, as the Secretary has indicated.

We talked a moment ago about Ecuador where that improvement has occurred, and our aid and other donors' aid have been a significant incentive. It has occurred in Costa Rica. It is occurring in Barbados. I am optimistic about the Dominican Republic. There are, however, as you indicated, areas in which governments have not made the progress that they need to make, and that we would like them to make. Some lack of progress is due to the continued violence, and to the fact that additional policy steps need to be taken. Some lack of progress can be attributed to low commodity prices. There is a whole series of reasons and some better than others.

IMET IN CHILE

Mr. **Obey**. Let me ask the General, why are we starting a new IMET program in Chile?

General **Gast**. We have submitted this same program this year sir, for the same reasons, so that for Brazil and Chile can attempt to begin a program to where we can have a military relationship.

Mr. **Obey**. Again, the reason I ask that—you mentioned that—I have forgotten which country that you mentioned we cut training for last year.

General **Gast**. I was saying that there had not been a reduction in the overall levels as appropriated by Congress.

Mr. **Obey**. Because the fact is that since 1980 we have increased our IMET programs. We had, I think, 63 countries with IMET programs in 1980. And we have got almost 100 countries with IMET programs today which demonstrates my concern expressed earlier, that in a time when we are being asked to make excruciating choices here, at home, you are not making any choices. You are just adding to the list.

General **Gast**. Well, I understand that. We believe that it is required and beneficial for our country.

Secretary **Abrams**. In the case of Chile, we get into this situation where we are all in favor of a transition to democracy in Chile and frequently I am asked, probably the single most frequent question, what is the view of the Chilean military? How are our connections with the Chilean military? Do we talk to them? Do we know what they are thinking?

You know, this program does not answer this question short-run, but over the long-run, I think given the power of Latin American military institutions, it is smart foreign policy for us to maintain this kind of long-term institutional connection with them.

Mr. **Obey**. Mr. Lewis, you had a question?

ECONOMIC POLICIES

Mr. **Lewis**. Yes, Mr. Chairman. I want to pursue the general sort of question that you are asking. I was looking at this very interesting variety of charts that you have, and thinking about Mexico and Brazil—major countries in the region that are of critical interest to the United States, which presently do not fall on the critical attention side.

The weakness of American foreign policy, whether it be the Carter Administration, or the Eisenhower Administration or this one, is that many of us around this town tend to focus on an issue when the Washington Post puts it in the headlines.

Having said that, I believe that many of the problems we recently have seen develop in the Philippines, where you have a class society in which a relatively small percentage of the people have everything, and the rest of the people are peasants, lays the foundation for revolution.

Mrs. Aquino comes from one of the most wealthy families in the history of the Philippines. Her family owns those sugar cane fields. I wonder how she is going to handle land reform and improving life for the average cane worker.

Same thing applies to country after country in Latin America. The potential instability in Mexico is very real. The gap between the wealthy people in Mexico City or Guadalajara and the people in Tiajuana that you see on the hillsides, is just incredible.

What are we doing, in a policy sense, to first dramatically try to change the direction of the multi-laterals to whom we give a lot of money, but then in turn, what are we doing in terms of our A.I.D. bi-lateral relationships to try to directly, with some time-calendar effect, change those economic policies?

And what good does it do us to give 25 percent of the contribution to the World Bank, have the money go, to over turn the loans in Mexico.

And it does no good. So what are we doing in terms of specific changes in our policy in a bi-lateral sense first, but then second, what changes are we making in our multi-lateral policies?

Mr. **Ink**. First with respect to what we are doing, our assistance to these countries provides, in every instance, incentives to move in the directions that you are talking about.

Mr. **Lewis**. I have heard lip service to our having such conditionality. I have not seen changes of policy result from them. I have not seen significant changes of policy in Mexico, in terms of their economic view, attitude, philosophy, let alone, help the poor people.

Mr. **Ink**. Of course, we do not provide funds to Mexico.

Mr. **Lewis**. We certainly do. The World Bank is a major contributor to the United States.

Mr. **Ink**. Well I am talking about A.I.D. first. And what I am saying is that in so far as A.I.D. assistance is concerned, Economic Support Funds do have conditionality except in a few instances where, in our view, the countries have already adopted the kinds of policies that are needed.

Mr. **Lewis**. We have to go and vote, but would you do this for me, just for the record.

Mr. **Ink**. Yes.

Mr. **Lewis**. It might be helpful for both of us if we went back over the last five years and said, how have our policies changed over the last five, maybe ten years, the actual economic policies of Mexico, of Brazil, etc., and improved growth in the private sector; improved individual opportunity?

If they have not improved them, what can my service here do in terms of changing the next five years?

Mr. **Ink**. I would be happy to give you that information for those countries where A.I.D. assistance is provided. That was what I was referring to.

Mr. **Lewis**. I understand that but the overlap here is so very real. The marginal differences between qualification for AID versus multi-lateral and the amount of our money that is drained by multi-lateral versus AID.

Mr. **Ink**. I would say, in my view, and I think that I could speak for Mr. McPherson, we feel that there is need for more coordination among the donors.

I think we can be more mutually reinforcing in terms of what is accomplished in these countries. I think that there is room for improvement in this regard.

Mr. **Lewis**. If just those sorts of reviews in terms of the multilateral impact would help you in the work that you do, the Joint Economic Working Committee, for example, in the region. And an analysis on your part, as to what those policies are doing to change the fundamental direction of those countries is critical to our success.

Mr. **Ink**. As I said, we will certainly provide you with information, in so far as AID assistance is concerned. We will look at the other, and get back in touch with you.

[The information follows:]

AID SUCCESS IN POLICY DIALOGUE

One of the principal thrusts of AID's development assistance approach over the past five years has been that of tying assistance to improvements in economic policy by recipient governments. Our belief is that, while aid can play an important supporting role, appropriate economic policies in recipient countries are fundamental to economic development.

Policy dialogue efforts fall into three main areas:

--macroeconomic policy. We have generally sought increased use of markets in allocating foreign exchange and credit, maintenance of appropriate levels of exchange rates, reduction in fiscal deficits, and related reforms of macro policy. These basic policies determine the extent to which appropriate incentives and opportunities are provided to the private sector.

--structural adjustment. While macroeconomic policy is key, many other obstacles in most AID countries limit the quantity and quality of private investment, and incentives for more efficient production. These include price controls, bureaucratic red tape, tax and tariff policies, and arbitrary government regulation. By eliminating such impediments, more rapid private-sector-led growth should be possible.

--size and role of government. In many LAC countries, the size of government has outrun the capacity of the country to finance it, with the result that large, inefficient public sectors have crowded out opportunities for growth through private initiative. In some cases, parastatal government enterprises have become a large drain on government budgets and an obstacle to efficient production. AID's policy dialogue has sought to limit the role of government and increase its efficiency, and to promote divestment of enterprises in the productive sectors.

We believe that considerable progress has been made over the last five years in each of these areas. In virtually all LAC countries, fiscal deficits have been reduced sharply. Many governments have increased the use of market forces in allocating credit and foreign exchange, and many countries have realigned exchange rates in the right direction. Virtually all governments have undertaken significant structural adjustments, and most are seeking to limit the size of government. Most LAC governments are actively considering some divestment of inefficient enterprises, and some have already initiated divestment actions; five years ago, there was virtually no interest in this topic.

AID's role in this improved climate for growth has been substantial. It has not, however, been the sole influence. Other donors, with varying levels of enthusiasm, have sought similar changes, and host governments have often acted on their own in response to their own diagnosis of the need for reform. The AID role is easiest to pinpoint where specific reforms constituted formal conditions to disbursement of funds. In many other cases, the AID role was no less significant, but it took the form of continuing, less structured, collaboration with governments, financing of studies, or similar types of persuasion.

Given below are country-by-country summaries of major policy dialogue achievements over the past five years. The list is illustrative, rather than comprehensive, and focuses only on major policy issues. A complete list, including sectoral policies and institutional changes, would be far longer.

AID has not maintained an economic policy dialogue in those Latin American countries, such as Brazil, Mexico, and Argentina, where AID has no bilateral assistance programs. The multilateral institutions, notably the World Bank and IMF, do carry out such a dialogue with those countries. Similar summaries of efforts in those countries could be prepared by other agencies.

JAMAICA

OBJECTIVE: Unify the exchange rate at an appropriate level, and eliminate a wide variety of quantitative restrictions and licensing requirements on imports.

RESULTS: After several years of effort, the exchange regime was unified in late 1983, and most quantitative restrictions on imports have been eliminated. This has led to a dramatic increase in non-traditional Jamaican exports since then, though the collapse of the market for Jamaican bauxite has outweighed this positive impact. Price controls on numerous food imports were eliminated and replaced by a food-stamp program for low income consumers.

OBJECTIVE: Reform the highly-progressive Jamaican income tax system, which reached a rate of 65% at an income level below $5,000.

RESULTS: Extensive AID-financed analysis of the Jamaican tax system led to a national dialogue on this issue, and to establishment of a new tax code with a single 33% tax rate.

OBJECTIVE: Elimination of government marketing board monopolies for export of agricultural crops and divestment of numerous government enterprises, and government-owned agricultural lands.

RESULTS: Marketing board monopolies for coffee, citrus and bananas were eliminated in 1984 and 1985, and progress in this direction has been made for cocoa and sugar. The Government of Jamaica has sold, leased, or is in the process of privatizing 46 enterprises. More than 18,000 acres of underutilized government lands have been returned to private operation through long-term leases over the past year.

OBJECTIVE: Reduction in the relative size of government. Government spending exceeded 40% of GDP in the early 1980s.

RESULTS: Government employment was reduced by more than 12,000 in 1984 and 1985, and the share of government in GDP has been cut below 36%.

COSTA RICA

OBJECTIVE: Exchange rate unification and control of the fiscal deficit.

RESULTS A major devaluation/unification of the exchange rate took place in 1982, and the Government has since used mini-devaluations to maintain competitiveness. The fiscal deficit was steadily reduced from more than 14% of GDP in 1982, to 1.5% in 1985 through a combination of expenditure reduction and improved revenue collections.

OBJECTIVE: More market-determined credit allocation through positive real interest rates and elimination of numerous categories of specific credit ceilings.

RESULTS: Interest rates were raised to reflect internal inflation; the banking law has been reformed to permit limited private-bank competition with the government-owned banking system; and most selective credit limits have been eliminated.

OBJECTIVE: Limit government subsidized credit to the State holding company (CODESA) and promote sale of CODESA firms to the private sector.

RESULTS: Progress made in 1984 in limiting credit use by CODESA. The Government of Costa Rica is in the process of selling a number of CODESA firms.

OBJECTIVE: Eliminate obstacles to promotion of non-traditional exports from Costa Rica.

RESULTS: Procedures for exports have been streamlined; foreign investment promotion efforts have increased; and regulations regarding operation of export trading zones have been simplified.

OBJECTIVE: Limit subsidized credit to the government agricultural marketing corporation (CNP), and promote market pricing by CNP to eliminate future deficits.

RESULTS: Some progress made, but CNP pricing policies continue to result in substantial operating deficits.

EL SALVADOR

OBJECTIVE: Gradually unify the exchange rate at an equilibrium level, reduce the fiscal deficit, and encourage the Government to enter into an IMF stabilization program.

RESULTS: The Government gradually moved transactions into the parallel market during 1984 and 1985, and unified the exchange rate in early 1986. Continued military conflict has limited progress in reducing the fiscal deficit, and no IMF program has been undertaken. Given the current rate of inflation, additional exchange rate adjustments are desirable during 1986.

OBJECTIVE: Improve relations between the Government and the private sector through dialogue, government payment of agrarian reform debts, reduction in government controls, and a role for private banks.

RESULTS: The Government maintains an extensive dialogue with the private sector, but considerable tension persists. Some progress has been made on agrarian debt payments, but they continue to lag behind obligations. Some government controls have been eliminated, but others have been established. No opening for private banks has occurred.

OBJECTIVE: Seek restructuring of the agrarian reform, including greater member control of cooperatives, vesting of individual title rights in coop members, and improve implementation of agrarian reform.

RESULTS: Limited progress has been made in speeding up the titling process, and the Government has showed increasing recognition of the importance of coop autonomy and individual member rights. However, substantial further progress is needed.

OBJECTIVE: Promote non-traditional exports.

RESULTS: Mechanisms have been established for information concerning export opportunities, and the Government has been made more aware of the importance of promoting exports. A new export promotion law was recently approved, with broad support in the private sector.

HONDURAS

OBJECTIVE: Dismantling of foreign exchange controls and reduction in the government fiscal deficit.

RESULTS: Some measures have been taken to reduce the deficit, but it remains higher than desired. Some progress has been made toward reduction in exchange controls through operation of an own-funds import system, but the exchange control system continues to involve heavy government administration.

OBJECTIVE: Establish mechanisms to promote non-traditional exports.

RESULTS: An export promotion law and a temporary import law have been passed, and the Government has revised an agricultural development law to encourage agricultural exports. AID is now supporting a half-dozen specific efforts to increase exports.

OBJECTIVE: Promote privatization through transfer to private sector control over wood marketing, transfer of several government-owned agricultural enterprises, and transfer to private sector of firms owned by the State holding company.

RESULTS: Some transfer of wood and lumber marketing to private sector has occurred. Considerable progress has been made on divestment by the State holding company, and legislation authorizing the sale of state enterprises was recently passed.

PANAMA

OBJECTIVE: Improve the investment climate by eliminating the bias for import substitution.

RESULTS: The Government committed itself to reform of the industrial incentives law and import tariff system. After a long delay, an industrial incentives bill was submitted to the legislature and approved in March 1986.

OBJECTIVE: Improve the competitiveness of Panamanian labor through reform of labor code to eliminate features that raise costs without improving worker income.

RESULTS: AID financed a study showing costs of labor code added 75% to wages received by workers. A government-sponsored revision of the labor code was passed by the Legislature in March 1986.

OBJECTIVE: Bring Panamanian agricultural prices closer to world levels, in order to restore appropriate incentives to farmers.

RESULTS: Rice support prices have been lowered to close to world levels, and some progress is being made on other commodities where prices exceed international levels.

DOMINICAN REPUBLIC

OBJECTIVE: Unify exchange rate at competitive level, and remove administrative obstacles to imports.

RESULTS: A system of multiple exchange rates was unified in early 1985 to a single market-determined rate. The rate has been relatively stable over the past year, and inflation now is less than half the 1984-85 average.

OBJECTIVE: Remove taxes and administrative obstacles to exports.

RESULTS: Documentation requirements for exports have been reduced. The exchange tax on exports imposed at the time of unification has been reduced from 36% to 18%, and eliminated for non-traditional exports. The combination of reduced impediments and a more favorable exchange rate has led to a sharp increase in non-traditional exports to the United States.

OBJECTIVE: Reduction of the public sector deficit, including elimination of the need for subsidies to public enterprises through utility rate increases and removal of price controls.

RESULTS: Overall the public sector deficit was reduced from 2.5% of GDP in 1983 to 1.2% in 1985. Electric power subsidies were substantially reduced, and the power company is expecting an operating surplus this year. The government agricultural marketing corporation continues to be a problem. Little progress has been made on removal of product price controls.

OBJECTIVE: Increase savings mobilization and access to credit by move to market-determined interest rates and institutional improvements in financial sector.

RESULTS: Interest rates have been partially deregulated, and now approximate positive real levels.

BELIZE

OBJECTIVE: Reduce subsidies to government enterprises, and return functions to private sector where feasible.

RESULTS: The operating deficit of the electric power utility has been reduced, and management improvements are being studied under AID assistance. Government has announced plans to divest itself of plantations owned by the government banana corporation, and is considering divestiture of government rice mills. Beef prices have been decontrolled, and operating control of principal meatpacking plant has been returned to private sector. The result has been a sharp increase in beef exports.

OBJECTIVE: Improve climate for new investment in agriculture, tourism and export industry.

RESULTS: A one-stop government entity for foreign investors has been established, and government awareness of need for good climate has been increased. Several major foreign investors, including Coca Cola's Minute Maid subsidiary, have announced plans for substantial operations in Belize.

HAITI

In the past, AID's operations in Haiti have focused primarily on the private sector, particularly on private voluntary groups. This has been due to the human rights performance and lack of sufficient development orientation of the Duvalier government. As a result, the policy dialogue with that government was less extensive than in most other LAC countries. Nevertheless, AID did promote policy reform in several areas.

OBJECTIVE: Increase incentives for coffee exports by reducing or eliminating the export tax.

RESULTS: As a result of AID efforts, the coffee export tax was reduced by 10% in 1984 and by an additional 15% in 1985. Further progress is likely this year. Significant new planting of coffee has been made recently.

OBJECTIVE: Improve opportunities for private investment aimed at exports of labor-intensive products.

RESULTS: A public/private sector commission was established to promote investment and to identify impediments to more rapid growth.

GUATEMALA

The U.S. has provided no policy-based lending to Guatemala over the past several years. The bulk of U.S. assistance has been provided for directly poverty-related activities, particularly in the rural highlands. As a result, AID's involvement in macroeconomic policy dialogue with the Government has been very limited. With the inauguration of a democratically-elected government in January 1986, we are now beginning to provide such assistance, and have instituted a very active policy dialogue.

OBJECTIVE: Unify the exchange rate at a competitive level and reduce the fiscal deficit.

RESULTS: During 1983-85, the Government undertook steps to reduce the fiscal deficit, but action on the exchange rate was incomplete and possibly destabilizing. The newly-elected government has announced a major stabilization program which appears to address the major problems.

OBJECTIVE: Increase literacy among the Indian population by instituting bilingual primary education.

RESULTS: This activity appears to be dramatically increasing primary school enrollments and literacy among the Indian population. Over the three years of implementation of this reform, the number of students receiving bilingual education has increased from none to nearly 400,000.

PERU

OBJECTIVE: Strengthening market mechanisms by removing obstacles to private investment, opening the economy to international competition and eliminating price distortions.

RESULT: Some progress was made in this area, but the medium-term adjustment program was largely abandoned in the face of sharp declines in GNP resulting from falling prices of export commodities and production losses in 1982-83 caused by extreme weather conditions. A new effort was made in 1984-85 to promote reforms, including those listed below.

OBJECTIVE: Improvement in export competitiveness.

RESULT: A devaluation of ten percent was undertaken in early 1985 and the real rate of March, 1985 was sustained, on average through July when it was again devalued by 3-4 percent.

OBJECTIVE: Real positive interest rates for industrial loans.

RESULT: The GOP which maintained a ceiling on lending rates nonetheless undertook an AID-financed industrial credit program which required real positive rates of interest.

OBJECTIVE: Control of Inflation

RESULT: The GOP under two succeeding democratic administrations has attempted to control inflation through a variety of means, but high annual rates of price increase persist (although somewhat diminished in 1985). Basic structural and institutional problems as well as chronic official deficits render near-term achievement of price stability unlikely.

BOLIVIA

OBJECTIVE: Establishment of a market-based exchange rate system and control of fiscal deficits.

RESULT: Economic management deteriorated severely during 1982-85. Bolivia achieved the world's highest rate of inflation, a classic hyperinflation. In late 1984 and during the first half of 1985 AID withheld certain assistance that had been committed but was conditioned upon implementation of an acceptable economic program. But the leadership through July, 1985 did not implement such a program.

With the implementation of a comprehensive stabilization program in late 1985 by the newly-elected government, AID moved quickly to release previously committed resources in order to support implementation of the GOB's program. ESF was approved early in FY 1986 in response to continued progress; however this reseource has not yet been released to the GOB.

Through March, 1986 the program's success continues: the exchange rate has more-or-less stabilized, inflation in February was at a 30% annual rate, and political unrest has quieted. However the situation is becoming increasingly fragile, because of declines in the prices of the country's principal exports, tin, natural gas and oil. The incremental external resources needed to support the reforms are not arriving propitiously, which could threaten continuation of the program.

OBJECTIVE: Reduction of subsidies to wheat consumption and encouragement of domestic production.

RESULT: The P.L.-480 Title III project required inter alia reorganization of farm policy planning and maintenance of domestic wheat prices at world levels. The agricultural planning commission was reorganized. However, although there was a market for all domestically produced wheat, prices continued to be subsidized, and Bolivian production restrained, until the stabilization program of late 1985 deregulated commodity prices.

OBJECTIVE: Elimination of illegal coca production. Bolivia is required as a condition of U.S. assistance to undertake specific actions to reduce coca production.

RESULT: In May, 1985 Bolivian Government Decree provided for licensing of coca production to supply legal requirements and prohibited unlicensed production, conforming with a covenant of U.S. assistance.

ECUADOR

OBJECTIVE: Devaluation

RESULT: A major devaluation was achieved and a system of minidevaluations implemented in 1982. This helped with the elimination of the GOE's fiscal deficit and the control of inflation. The new administration has since abandoned the system of mini-devaluations but it has undertaken periodic adjustments of ther official rate of exchange.

OBJECTIVE: Unification of exchange rates

RESULT: The new conservative government elected in 1985 initiated a market-based economic reform. AID encouraged the analysis and planning for this program and contributes to and encourages the continuing reform and adjustment. The system of multiple exchange rates has been resolved to an adjustable official [intervention] rate concurrent with a free parallel market. AID continues to encourage a fully integrated market-determined single rate.

OBJECTIVE: Adoption of a market-based interest rate system

RESULT: Deposit interest rates continue to be controlled; however as the rate of inflation has declined real interest rates have tended to become positive. The GOE has come part of the way toward encouraging domestic saving by legalizing and encouraging the marketing of certificates of deposit which carry freely negotiated terms and hence market-determined interest rates.

OBJECTIVE: Improved government revenues

RESULT: Revenues have been enhanced by improved efficiency in tax administration (supported by AID technical assistance) and phased increases in the domestic prices of petroleum products supplied by the state oil company. Increases in the prices of domestic oil products have not been as rapid as had been desired because of continued political opposition.

OBJECTIVE: Elimination of price controls and subsidies

RESULT: Most price controls have been removed and commodity markets have been freed both of controls and subsidies.

OBJECTIVE: Increased externally-financed investment

RESULT The GOE opened the economy to foreign investment, especially in the petroleum sector, concluded an OPIC Agreement and proposed major changes in the mining law in order to encourage increased investment.

MILITARY CAPABILITIES OF NICARAGUA

Mr. **Lewis**. Mr. Chairman, we have to go and vote.

Mr. **Obey**. Before we do, gentlemen, I am simply going to read into the record what Lt. Col. Ed King told us about the military *capabilities of Nicaragua last year.*

Mr. King served as Joint Chiefs of Staff Military Liaison Officer to the U.S. Delegations to the Inter-American Defense Board, the Joint Brazil/U.S. Defense Commission, and the Joint Mexico/U.S. Defense Commission. He was also the Joint Chiefs of Staff Liaison Officer to the Staff of the U.S. Ambassador to the Organization of American States.

And this is in part what he said in response to questions that I raised with him last year.

He said, "The last point is that geographically it is impossible for Nicaragua to offensively do what has been postulated. In Honduras, you have high mountains that are down on Chaluteca. If the Sandinista tanks got across the river and they received enough fuel, the Mexicans give them a shipment once a month, there is only one road through the mountain to Tegucigalpa and the tanks would wind up like sitting ducks climbing up that road. One sortie of jet aircraft and goodbye tanks. If they did not choose to invade north into Honduras, they would have to turn and go west over to El Salvador, across 70 miles of exposed terrain, the right flank open from the mountains, the left flank open from the Gulf of Fonseca, and the Honduran army in front. When they get to El Salvador, they would have to face the Third Brigade, which is the best combat brigade in El Salvador.

It is probably the best brigade in the whole of Central America and they have 10,000 more reinforcements that can be brought up within five hours to fight if the Sandinistas would ever get there. Therefore, it is totally preposterous to postulate that type of a combined arms attack, even if the Sandinistas had the fuel, the logistics, the command control and the other things that are needed for an offensive.

They do not have any of those things."

So, I hope when we talk about this, we will talk about what the $100 million is actually going to do and what the nature of the threat is in specific terms today.

Secretary **Abrams**. Would you permit a response from either the State Department or the Department of Defense to those challenges?

Mr. **Obey**. Sure, absolutely.

Secretary **Abrams**. Which do not represent the views of the Defense Department, with all due respect of being associated with the OAS Ambassador, those do not represent the views of the State Department or the Defense Department or the intelligence agencies of government.

Mr. **Obey**. I am well aware of that but they do represent somebody who a number of presidents though was a worthy enough military officer to serve in the capacity in which he served. And I think they ought to be a part of the record.

I have some other questions for the record, that I will submit to you, as well.

We will now recess for lunch, to reconvene at 2:00 p.m. today, March 18, 1986.

Questions Submitted by Mr. Obey

CONTADORA

Question. On March 7th the President appointed Philip Habib as Central American Special Envoy to "achieve a diplomatic solution" to the region's troubles. I support sending Mr. Habib on this mission to Central America, but I ask you one question: why has it taken so long for the Administration to look for diplomatic solutions in the region?

Answer. We have sought a diplomatic solution from the outset and still do. What has changed is that the Sandinista opposition to a workable agreement convinces us that more pressure is needed. For example: we held nine rounds of bilateral talks with Nicaragua from late June to early December 1984. That is, after the Congress ended all U.S. assistance to the Nicaraguan resistance. But Nicaragua rejected our offer of bilateral guarantees in exchange for changes that would have made a Contadora draft agreement acceptable.

Question. Last year when Congress passed legislation permitting the use of $27 million in funds for humanitarian support for the contras the legislation called for the President to "vigorously pursue the use of diplomatic and economic steps to resolve the conflict in Nicaragua," including negotiations to implement the Contadora Document of Objectives of September, 1983. It has been almost eight months since that legislation was passed. Have any other steps toward negotiation taken place prior to Mr. Habib being sent to Central America last week?

Answer. Yes, several. First, it should be noted that Congressional passage of the legislation in August did prompt renewal of the Contadora talks in September. We are not a party to those talks, but we expressed our full support publicly and privately. Eventually the Nicaraguans called for a six-month suspension of talks.

Second, in October, Ambassador Shlaudeman, Ambassador Habib's predecessor, met with Nicaraguan Ambassador Tunnermann (after Daniel Ortega refused a meeting) to offer to renew bilateral talks if the Sandinistas first sat down with the resistance. Nicaragua refused. In February, Secretary Shultz told the Contadora foreign ministers that we would renew bilateral talks simultaneously with the Sandinistas sitting down with UNO. Nicaragua has rejected this approach as well. In March, we supported the proposal of President Duarte that he and President Ortega sit down with their armed oppositions at the same time. Ortega rejected this offer as being "inconsistent with Contadora."

Question. Is one of Mr. Habib's missions to enter into negotiations to impelement the Contadora Document of Objectives?

Answer. Mr. Habib's mission is to find out if the Sandinistas are willing to enter into an agreement that is acceptable to us and to the Central American democracies. A comprehensive, verifiable, and simultaneous implementation of the Document of Objectives would constitute such an agreement. It should be understood, however, that we are not (at the Sandinistas's request) a party to the Contadora negotiations and that it is misleading to speak of Ambassador Habib "entering into negotiations to implement the Document of Objectives." His diplomatic activity will, however, be directed at that purpose.

Question. Are we in fact still working with the Contadora Group toward their objectives, or are we pursuing a separate set of objectives? How do the two objectives differ?

Answer. The Contadora Group and Support Group recently reaffirmed their objectives in the "Caraballeda Message" of January 12. We agree with and support the objectives ("bases for peace") set forth in that statement.

Question. Does the President's request permit U.S. perconnel to train Contras?

Answer. We intend to provide training to the resistance. This will be oriented toward small unit tactics, weapons, and logistics. It will not include an operational role for the trainers nor will U.S. training be conducted inside Nicaragua.

Question. How many U.S. military personnel do you anticipate participating in the training of the Contras?

Answer. We can not provide these details at this time. The number of trainers will depend on several variables and no decision on exact numbers has yet been made.

Question. Do you anticipate U.S. personnel doing any of the training inside of Nicaragua?

Answer. U.S. training will not be conducted inside Nicaragua.

Question. The Washington Post on March 12 published an article quoting the Commander of the Southern Command as stating that the Nicaraguan rebels are not going to "collapse if we don't give them something". However, Patrick Buchanan, sitting in Washington, indicated "if we don't get that assistance to the contras, they'll be defeated". Is there a division developing in the Administration over what the value of assistance of the contras will be?

Answer. There are no divisions in the Administration over the need to provide assistance to the resistance. Without assistance the resistance will have increased difficulties in conducting sustained operations and in countering Sandinista weaponry. At some point it may well be unable to confront the Sandinista military.

However, the resistance has fought over two years without U.S. military aid and did not collapse without it. It exists because of opposition to Sandinista policies, and will continue to oppose the Sandinistas' totalitarian regime as long as it can.

Question. Mr. Secretary, I have been pursuing for two years with you and other Administration witnesses the question of what the President means when he says he wants the Sandinistas to cry Uncle. On the day before the vote on providing economic and military assistance to the Contras, can you give us clarification if this means that we want an overthrow of that Government, and exactly how far we are willing to go to meet our goal?

Answer. Our objectives toward Nicaragua have not changed. We want to see: an end to support for insurgency in neighboring countries; an end to military ties with the Soviet bloc; a restoration of the regional military balance; and implementation of democratic reforms. To accomplish these goals requires Sandinista negotiations with all opposition elements and within Contadora. Our policy, including military pressure exerted by the resistance, is designed to lead the Sandinistas into these negotiations. We wish to avoid having to choose between accepting a second Cuba or using U.S. armed forces.

We are prepared to provide needed assistance to the resistance. We do not intend to commit U.S. forces into the region.

Question. With these facts as a background, what I want to know is whether the U.S. program in Central America is really aimed at helping the area economically or supporting a so called military solution to problems in Central America?

Answer. As the National Bipartisan Commission on Central America [NBCCA] noted in its 1984 report, political stability in Central America will depend on our ability to improve the economic and social conditions prevailing in the region. U.S. assistance to the Central American nations seeks to implement this and the other recommendations of the NBCCA.

While the security situation in Central America is of great concern to us, we are in no way advocating a military solution to all of the region's problems.

Actual military assistance to the nations of Central America comprises approximately 20 percent of total U.S. assistance. We note that you have counted ESF or Economic Support Funds as military assistance. ESF has been, in practice, balance of payments support to assist the governments of Central America in restoring their economies under difficult political and security conditions.

Question. To what extent have Central American countries receiving U.S. assistance achieved the economic growth targets suggested by the Kissinger Commission? How do the economic growth rates for FY 1985 and FY 1986 compare?

Answer. The NBCCA targets for economic growth envisioned moving from negative growth in the 1979–83 period to a growth rate approaching six percent in 1989. Growth did resume in 1984 and continued in 1985, although at a slightly lower rate. Growth rates for Belize, Costa Rica, El Salvador, Honduras, and Panama ranged between 1 and 2.5 percent in 1985, while Guatemalan GDP declined by 1.3 percent because of a number of factors. 1986 growth is expected to accelerate to perhaps an average of 3 to 4 percent as a result of improved economic policies, continued U.S. assistance, and favorable commodity prices.

Question. Is the limited economic growth that has taken place over the past 2 years due primarily to the infusion of AID Economic Support Funds? What self-sustaining growth, if any, has taken place?

Answer. We are still in the second year of the five-year Central America Initiative, which aims at producing self-sustaining growth by 1989. In the period since its inception, much has been done to set the stage for sustained recovery, and that process is continuing. U.S. balance of payments support over the past two years has contributed to the resumption of economic growth, but the security and policy environments in these countries will continue to be the most important factors influencing prospects for continued growth.

Question. To what extent did the use of Economic Support Funds from the United States allow countries to spend more of their own money on military growth?

Answer. The military spending of these countries is based on their perception of the serious threat they face, and these military spending decisions are made in large part independently of our economic assistance levels. Our military assistance has increased, as a reflection of the threat faced, precisely in order to relieve the local economies of the military burden they would otherwise bear. Economic Support Funds, of course, as recognized in the question, cannot be used for military purposes.

Question. Are the large military programs that we are funding going to place Central American countries in a bind in order to sustain them in the future? Are we giving them a gift they cannot afford?

Answer. The goal of U.S. policy in Central America is to foster a regional environment in which large military programs would be unnecessary. The current military requirements of the Central American democracies are a response to communist-led insurgency and to the Soviet-sponsored military buildup in Nicaragua. In the case of El Salvador, we are supplying military assistance to a constitutional, democratic government to help it defend against a Marxist-Leninist insurgency dependent on Sandinista aid and logistical support. When the President's strategy of maintaining pressure on the Sandinistas achieves it objectives, we anticipate a decreased need for military resources by the other Central Americans.

REVISION OF CENTRAL AMERICAN GROWTH TARGETS

Mr. OBEY. Given the limited economic growth achieved to date in Central America, has the Administration revised the growth goals outlined of six percent annual growth within six years?

ANSWER. Central American economic growth in 1985 was somewhat slower than we anticipated, due to several factors: continued insurgency, lower than anticipated levels of commodity prices and capital inflows, and some shortcomings in economic management. Nevertheless, we expect 1986 growth for most countries of the region to be in the 2-4% range, which is consistent with achievement of 6% growth by 1989. Consequently, we consider the 6% target to continue to be possible, though ambitious. A number of imponderable factors—level of insurgency, economic policies, world economic growth, the extent of protectionism by industrial countries, world interests rates—will have a major factor on actual achievement. Moreover, prospects for achieving this goal vary significantly by country, as discussed in the response to the next question.

GROWTH RATES OVER THE NEXT 4-6 YEARS

Mr. OBEY. What economic growth rates can realistically be expected over the next 4-6 years?

ANSWER. The future trends of economic growth will depend on a number of factors, including economic policies followed by the governments, the world economic situation, commodity prices, political stability, and the extent of continued military conflict. The latter factor will be particularly critical in the private-sector response to improved economic policies.

At the present time, we consider prospects for steadily increasing economic growth that reaches an annual rate of 6% by 1989 to be good for Costa Rica, Belize, and possibly Panama, although the prospects for the latter are more uncertain. The first two have taken major policy steps to reorient their economies toward exports and toward an increased role for the private sector, and Panama appears to be moving in this direction.

For El Salvador, we doubt that the target can be achieved without an end to the insurgency. With continued insurgency, growth in the 2-4% range may be the best that can be achieved.

Prospects for Honduras cannot be gauged at this point because of uncertainties about future economic policies that will be pursued by its newly-elected government. We consider the acceleration of growth to around 6% by 1989 still achievable if appropriate economic policy steps are taken soon.

Guatemala's new government has announced a comprehensive stabilization program, which, if fully implemented, will be a major step toward achievement of the conditions for rapid growth, although there are some elements which we still have under discussion.

CENTRAL AMERICAN EXPORTS UNDER THE CBI

Mr. OBEY. Did Central American countries included in the Caribbean Basin Initiative increase exports in 1985? What percentage increase/decrease was there in each country?

ANSWER. The attached table provides a comparison of total exports to the United States and of manufactured exports. Since exports of most primary commodities are heavily determined by world market conditions, and were already duty-free prior to the CBI, it is in the manufactured-goods category that the main impact of the CBI should be felt.

As indicated by the table, total Central American exports to the United States increased by 10.6% in 1984 and by 2.5% in 1985. The 1985 performance was substantially influenced by U.S. import restrictions, which led to a fall by almost half in Central American sugar exports to the U.S.

Manufactured exports were much more dynamic, increasing by 28.8% in 1984 and by another 18.2% in 1985. Belize, Costa Rica, Guatemala, and Panama all increased manufactured exports by more than 60% between 1983 and 1985, indicating that the strategy of export diversification is achieving positive results.

CBI COUNTRY EXPORTS TO THE UNITED STATES

	($ Million)			Percent change		
	1983	1984	1985	1983–84	1984–85	1983–85
Belize	27.3	42.8	47.0	56.8	9.8	72.2
Costa Rica	386.5	468.6	489.3	21.2	4.4	26.6
El Salvador	358.9	381.4	395.6	6.3	3.7	10.2
Guatemala	374.7	446.3	399.6	19.1	−10.5	6.6
Honduras	364.7	393.8	370.2	8.0	−6.0	1.5
Panama	336.1	311.6	393.6	−7.3	26.3	17.1
Total, Central America	1,848.2	2,044.5	2,095.3	10.6	2.5	13.4

CBI MANUFACTURED EXPORTS TO THE UNITED STATES (SITC CATEGORIES 5–8)

	($ Million)			Percent change		
	1983	1984	1985	1983–84	1984–85	1983–85
Belize	6.5	15.8	23.2	143.1	46.8	256.9
Costa Rica	102.4	134.4	166.5	31.3	23.9	62.6
El Salvador	94.4	121.4	90.5	28.6	−25.5	62.6
Guatemala	14.6	27.6	28.2	89.0	2.2	−4.1
Honduras	37.1	39.2	45.5	5.7	16.1	93.2
Panama	33.6	33.3	85.3	−0.9	156.2	22.6
Total Central America	288.6	371.7	439.2	28.8	18.2	153.9
						52.2

IMPACT OF CBI ON EXPORTS

Mr. OBEY. Why hasn't the Caribbean Basin Initiative had more impact on exports?

ANSWER. As indicated in the answer to the previous question, the CBI has had a significant impact on non-traditional exports. Nevertheless, several factors have limited its impact. The continuation of the military conflict in Central America is the largest single factor. The resulting uncertainty and insecurity has reduced interest by potential exporters, particularly foreign investors, in the region.

U.S. actions have also had an impact. The reduction in U.S. sugar quotas led to a sharp reduction in exports of that commodity to the United States, from $212 million in 1984 to $112 million in 1985. The exclusion of textiles and shoes from duty-free treatment has also been a limiting factor. Both industries have the potential for increased production.

EVIDENCE OF PROGRESS ON STABILIZATION

Mr. OBEY. Overall, based on the performance to date, what can we point to on the economic side that shows that our programs in Central America are leading those countries to economic stabilization and growth that *won't* rely heavily on U.S. assistance?

ANSWER. As envisioned by the Jackson Plan, rapid growth without large-scale U.S. assistance is the goal we are seeking to achieve by the end of the decade. Two factors are key to this:

Achievement of peace in the region, which will eliminate the need for emergency stabilization assistance and provide an improved climate for private investment flows; and

Replacement of U.S. assistance by increased export earnings, particularly from non-traditional products.

Achievement of the first goal requires appropriate domestic economic policies that will stimulate increased private investment in exportable products. Our target has been a 20% annual rate of growth of non-traditional exports from the region, which would increase such exports by $750 million between 1983 and 1990. For the 1984-85 period, the actual rate of growth, 23%, has been somewhat higher.

Prospects for a near term end to violence in the region are not good. Consequently, the climate for private investment in the region over the next several years is likely to be less favorable than that assumed by the Kissinger Commission, with a consequent reduction in the likelihood that large-scale assistance can be ended by 1989.

Question. Robert Hormats held a key foreign policy position under this Administration. He was the Assistant Secretary of State for Economic and Business Affairs. He wrote a recent article in *Foreign Affairs* on the world economy in 1985. In it, he discussed the seriousness of the Third World debt problem, especially in Latin America.

In it, he said several things:

"A Mexican financial collapse would pose a foreign policy problem for the U.S. that would dwarf all others."

He went on to say:

"In many countries, debt service payments are growing more rapidly than export earnings and greatly exceed new capital inflows. Large and prolonged net outflows of funds, absorbing in some cases 50 percent of export receipts, are incompatible with Secretary Baker's objective of restoring growth in heavily indebted nations and with U.S. interests in ensuring stability there. The Administration will need to use at least as much political capital to obtain additional funds for these countries as it has in seeking aid for Central America. The political and economic stakes are considerably greater."

Do you agree with these statements?

When will the Administration expend time and energy and take the actions required to address the Latin debt problem to the same extent it has fought for aid to Central America and the Contras?

Answer. A. The Mexican financial situation is of particularly great interest and concern to the United States. We are in close communication with the Mexican government about this and related matters. It does not appear likely, however, that a Mexican financial collapse is imminent. Mexico has announced measures to deal with its economic problems and we are attempting to be supportive of such efforts. It is discussing with its creditors a variety of steps that can be taken to adjust to the consequences of the recent decline in oil export revenues.

Secretary Baker outlined a Program for Sustained Growth at the IMF/IBRD meetings in Seoul, Korea in October, 1985, intended to meet the challenge in a manner that will provide lasting economic recovery and a return to external creditworthiness for the debtor countries. Secretary Shultz' report to Congress of December, 1985 dealt specifically with Latin American debt. The Administration is devoting considerable time and energy to debt-related problems of developing countries. We continue to consult and coordinate extensively with debtor governments, other creditor governments, international financial institutions and commercial banks. We do not, however, see this as an issue requiring large appropriations of U.S. bilateral economic assistance. We favor increased net flows of funds to debtor countries that are implementing policies aimed at making their economies more efficient and competitive. It is essential that countries adopt policies that restore international confidence and reverse the flight of capital that threatens to negate the effects of capital flows to these countries.

As Mexico and other major debtor nations implement structural economic reforms they will need continued and improved access to developed country markets for their exports in order to earn the foreign exchange to meet their financial obligations. The support of Congress for a strong US-Mexico trade relationship is essential to an eventual solution to the debt problem.

Interest rate declines and the effect of industrial country growth should be felt this year and will ameliorate the effect of falling oil revenues on oil exporting debtor countries. Other debtors will benefit even more. In addition, capital flows to developing countries could be increased by re-attracting flight capital and by encouraging foreign investment, thus reducing the need for new borrowing.

AID Efforts To Obtain Policy Reforms

Mr. Obey. The General Accounting Office released a report last July that stressed the importance of economic policy reforms in Central America.

To what extent has the Administration's policy to provide balance of payments assistance influenced the Central American countries to make policy reforms?

Answer. We believe our efforts to promote policy reforms have been quite successful. A description of the major areas for policy reform in Latin America, and A.I.D.'s success in achieving results, has been provided for the record as part of Mr. Ink's testimony.

AID Efforts To Obtain Exchange Rate Changes

Mr. Obey. Specifically, how has this policy worked in regard to changes in exchange rates?

Answer. Changes in exchange rates are no panacea for economic policy problems in Central America or elsewhere. However, in cases where internal inflation—usually due to large unfinanced fiscal deficits—has caused internal prices to rise to a level where the country's exports lose their competitiveness, exchange rate changes are often the least-cost means of addressing this problem. Such changes, however, need to be undertaken in coordination with appropriate fiscal and monetary measures so that a devaluation/inflation spiral does not result.

Partly due to AID's efforts, favorable changes in exchange rates have been made in several countries in Central America. Costa Rica, after a major realignment in 1983, has maintained a floating exchange rate at a level that maintains the competitiveness of its exports. Belize has taken internal steps to reduce the fiscal deficit and obviate the need for a devaluation. El Salvador devalued its currency in early 1986, and the new Government of Guatemala has announced its intention to do so soon. In both cases, the adjustment appears broadly to restore competitiveness.

Honduras has not altered its exchange rate despite some loss of competitiveness, but the new government is now examining alternative means of restoring it. This might include devaluation, but might instead involve a combination of more restrictive monetary policy and structural changes in the economy.

Economic Reform in Central America

Mr. Obey. One of the major economic issues in Central America has been the need to improve economic policies in Honduras. If the Government of Honduras continues to resist exchange rate reform, how will this affect the Honduran economy and U.S. economic assistance policy toward that country?

Answer. The previous Honduran Administration avoided serious consideration of exchange rate adjustments. In our view, this has meant that Honduran exports suffered significant losses as they became less and less competitive in world markets. Recently, the impact of an overvalued currency on Honduras' balance of payments has been ameliorated somewhat by higher coffee prices and lower oil cost. The period of modest growth spurred by increased coffee earnings, however, is expected to be relatively short.

Our balance of payments assistance will continue to be linked to Honduran efforts to provide a policy framework for economic stabilization, recovery, and growth. We are currently engaged in detailed discussions with the GOH on a stabilization program that would serve as the basis for our FY 86 ESF assistance. We have agreed that the program will address: (1) the importance of the trade-off between GDP growth and the accumulation of international reserves, (2) the crucial importance of maintaining fiscal discipline, (3) the need to enforce strict limits on net domestic credit expansion overall and especially to the public sector, (4) the need to reduce the size of the public sector, and (5) the desirability of increasing private sector participation across all sectors.

U.S. Balance-of-Payments Assistance

Mr. Obey. When the United States provides balance of payment cash to countries, how do we verify and trace the use of these funds? Once the funds are placed in the Central Bank do we in fact have the ability to find out how they are being used?

Answer. Economic Support Fund non-project assistance to Latin America since FY 1981, has been in the form of cash transfers. The funds are used for balance-of-payments support to assist recipient countries in meeting critical foreign exchange requirements. Under a cash transfer program, the funds are electronically transferred to the recipient government's account in the United States Federal Reserve Bank; the funds are not tied directly to specific imports, as is the case in a Commodity Import Program. El Salvador is treated somewhat differently from other Latin American region recipients. Under its Cash Transfer Program, in accordance with legislative requirements, a special account is maintained in El Salvador's Central Bank for United States balance-of-payments assistance. The use of the dollars placed in the Special Account is directly traceable to private sector imports.

For other recipient countries in the region, the relation between the assistance and specific imports is not as direct; however, A.I.D. attempts to maximize the impact of the cash transfer assistance by requiring the recipient country to make available an equivalent amount of dollars for imports from the United States of raw materials, intermediate goods, and spare parts for use by the productive sector (in the case of El Salvador, the imports may be from Central American Common Market countries, excluding Nicaragua and including Panama, as well as the United States).

As evidence that the countries have complied with this requirement, the receiving governments are normally required to submit to A.I.D. quarterly reports on the attribution of eligible imports to the dollars they have made available in amounts equivalent to disbursed assistance. The reports are subject to audit by the A.I.D. Missions' controller's offices.

In most of the recipient countries (including El Salvador, Honduras, Costa Rica, and Jamaica), the Inspector General's Office and/or the General Accounting Office have conducted periodic audits or reviews of the Missions' internal controls and recipient government compliance with reporting requirements.

Furthermore, in Honduras and El Salvador, countries in which capital flight is a recognized problem, the USAID Missions have provided technical assistance and training for establishment of Price Checking Units in the Central Banks, which review import documents on a selective basis.

El Salvador—Linkage with Nicaragua Negotiations

Question. On March 4, 1986, President Duarte announced that he would meet with the FMLN guerrillas if Nicaraguan President Daniel Ortega would simultaneously enter into a dialogue with the rebels ("contras") battling the Sandinista government. How do you envision this dual dialogue taking place?

Answer. President Duarte made a good faith gesture to achieve a regional dialogue. His offer has been supported by us, by his democratic neighbors in the region—President Azcona of Honduras, President Cerezo of Guatemala, and President-elect Arias of Costa Rica—and by the Salvadoran Catholic Church.

In line with our standing offer to the Sandinista regime to meet with them if they will meet their democratic resistance, the "dual dialogue" would immediately become a "triple" round of talks.

The specific modalities of the talks would have to be worked out once agreement to meet is reached.

The onus is now on the Sandinistas and the FMLN to accept President Duarte's offer. To date, both have rejected the idea of simultaneous talks; we hope they will reconsider.

Question. Could Salvadoran negotiations proceed separately, or are they linked in some permanent way with Nicaragua negotiations?

Answer. President Duarte's proposal is predicated on simultaneous talks; we view it as an expansion of his policy on talks with the FMLN.

President Durate has made his position on solely internal dialogue with the FMLN very clear: he supports dialogue that is seriously aimed at national reconciliation in line with democratic principles and the Salvadoran constitution. He will not engage in talks just for show. The FDR/FMLN's proposal for dialogue last fall, while they were still holding his daughter captive, demonstrates their propagandistic approach to peaceful national reconciliation.

President Duarte's regional peace initiative is based on the recognition of direct, concrete Sandinista support for the Salvadoran insurgency. In this way, he hoped to restore substance to the dialogue process, both in El Salvador and throughout the region.

The Sandinistas have admitted to supplying weapons and guidance to the Salvadoran insurgents during the early 1980s; that they continue to do so was demonstrated most recently by their close involvement in the kidnapping of President Duarte's daughter last fall and by the discovery in Honduras of a car smuggling arms from Nicaragua to the insurgents this year.

MILITARY AND ECONOMIC AID TO EL SALVADOR

Question. Under current conditions, what is your estimate of El Salvador's needs for economic and military assistance over the next few years? While the guerrillas seem to be on the defensive, is there any reason to believe that U.S. military assistance and training can be phased out in the near term?

Answer. The FY 1986 MAP program provides $125 million in assistance. We have requested MAP assistance of $135 million for FY 1987. Our Embassy in San Salvador has requested somewhat higher MAP funding in FY 1988, which would fund some elements (e.g., naval craft and medical facilities for wounded) which have been deferred from previous years.

In response to improved Salvadoran Armed Forces performance, the insurgents have ceased large-unit tactics and regressed to terrorism and small-unit operations against "soft" targets, especially economic targets. Although we believe that insurgent numbers have fallen by about half from their 1982-83 high of 9,000 to 12,000, there are still about twice as many insurgents in the field as in January 1981, when they staged their so-called "final offensive." The insurgents still fighting tend to be hard core, trained, experienced terrorists, committed to causing maximum disruption and damage.

In view of the durability of the insurgency, in part the result of continued logistical support and other assistance from the Sandinistas in Nicaragua, we see no prospect for phasing out U.S. military assistance in the short term. Although the nature of the insurgent threat is changing, the Salvadoran military continues: (1) to use ammunition and other expendibles at a rate commensurate with active operations, (2) to require replacement of materiel—including helicopters—lost in combat, and (3) to need some upgrade in military hospital, naval and air force facilities. Most important, to counter the terrorist threat, assistance to Salvadoran Public Security Forces has taken on new urgency.

In view of the insurgents' continued strategy of economic sabotage, the continued negative per capita real growth of the Salvadoran economy, the urgent need for employment and care for displaced and other needy persons, economic assistance will be required for some years to come. Economic assistance levels in FY 1986 have fallen far short of the levels requested by the Administration, in line with the recommendation by the National Bipartisan Commission on Central America in 1984. We continue to recommend that that shortfall be made up and that economic assistance be returned to the Commission's recommended levels. Failing that, we anticipate that economic assistance levels comparable to present levels will be the minimum required to maintain moderate real growth and prevent politically disruptive economic decline.

In FY 1986, development assistance plus ESF totals $258 million. The Administration is seeking $326 million in FY 1987 and plans to seek a slightly higher level in FY 1988.

We do not believe that these levels could be indirectly reduced by a sharp reduction in the insurgency. Much rebuilding will be required just to help restore El Salvador to 1979 levels of production and income. El Salvador has suffered six years of attacks on its economic infrastructure, massive internal population displacement and disruption, disinvestment and capacity underutilization, and a cumulative decline in real per capita income of about 40 percent since 1979. The electrical system and the nation's many bridges have been heavily damaged. The coffee trees, customarily El Salvador's largest source of foreign exchange, have been allowed to suffer from non-cultivation and disease.

While we definitely do not have an open-ended commitment to current levels of funding, we are committed to the institutionalization of democracy which requires economic stabilization and growth.

MILITARY ASSISTANCE TO EL SALVADOR

Question. In August 1984, the U.S. Southern Command Commander stated that Congressional funding of the Administration's military aid request of $400 million for FY 1984 and FY 1985 would allow a situation where within two years the Salvadoran military would effectively control 80 to 90 percent of the country. In light of the fact that most of these funds were provided ($336 million) and an additional $122 million was added in FY 1986, where are we in meeting that goal?

Answer. The Salvadoran Armed Forces have dislodged the insurgents from a number of areas and seriously weakened them in others. An example is Operation Phoenix, begun in January, which has succeeded in clearing the Guazapa volcano of a major insurgent headquarters and base of operations, while fully respecting the human rights of the non-combatants there.

The authority and legitimacy of the Salvadoran Government already is recognized by more than 80 percent of the population of El Salvador, as demonstrated by their repeated participation in successful elections in 1982, 1984 and 1985. Virtually all of El Salvador's economic output is under the authority of the government. In terms of territory, there is nowhere within El Salvador that the government cannot maintain a presence.

Nevertheless, the insurgents' switch to small-unit and terrorist tactics is designed to cause as extensive destruction as possible with their reduced numbers. Their tactic of kidnapping mayors (very different from attempting to control townships or municipalities) was designed to undermine government authority and demonstrate a reach they do not possess.

Question. In August 1984, the U.S. Southern Commander Commander stated that Congressional funding of the Administration's military aid request of $400 million for FY 1984 and FY 1985 would allow a situation where within two years the Salvadoran military would effectively control 80 to 90 percent of the country. How much longer do you now estimate it will take for 80 to 90 pecent of the country to be under the control of the central government? What will be the the U.S. cost?

Answer. Although the insurgents continue to maintain heavily fortified bases in Morazan and Chalatenango, and smaller strongholds in other departments, the authority and legitimacy of the Salvadoran Government already is recognized by more than 80 percent of the population of El Salvador, as demonstrated by their repeated participation in successful elections in 1982, 1984 and 1985. Virtually all of El Salvador's economic output is under the authority of the government. In terms of territory, there is nowhere within El Salvador that the government cannot maintain a presence.

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Question. To what extent will Ambassador Habib push toward further negotiations between the Government and rebel groups? Prior to his being sent to El Salvador, what has been done in terms of negotiations during the past year?

Answer. The U.S. fully supports President Duarte's efforts to achieve a peaceful, democratic solution to the conflict in El Salvador. Although Ambassador Habib will focus primarily on regional efforts at peace in Central America, his discussions with the Salvadoran Government will reflect this support for democratic national reconciliation in El Salvador.

In his state of the nation address on June 1, in a press conference in August and in November, following the release of his daughter by her FDR/FMLN captors, President Duarte reiterated his commitment to continue the dialogue and stated that he would meet with the guerrillas again when he saw some sign of a real desire for peace on their part.

In contrast, the FDR/FMLN utilized the dialogue issue for propaganda. Although making numerous "overtures," they never deviated from their demand that the constitution be overthrown and the Government restructured in an undemocratic manner. In October 1985, while holding President Duarte's daughtr kidnapped, they advanced yet another version of the same proposal, signed by FDR President Ungo and Communist Party Secretary General Handal; its timing demonstrated the initiative's propagandistic nature.

In March 1986 President Durate announced a major peace initiative, which we and El Salvador's democratic neighbors in Central America supported. President Duarte proposed to the head of the Sandinista regime. Daniel Ortega, a three part plan to peacefully resolve the conflicts in the region. The plan called for a simultaneous dialogue between the Nicaraguan Government and its political and military opposition and between the Government and the FDR/FMLN in El Salvador. (Talks between the Nicaraguan regime and its democratic opposition would have triggered bilateral U.S./Nicaragua talks.) The plan also called for the Central American presidents to meet to discuss integrated solutions to the problems of the region. Duarte's plan envisioned the creation of a Central American parliament.

Spokesmen for the Nicaraguan regime and Salvadoran guerrilla representatives immediately rejected President Duarte's effort to achieve a comprehensive peace in the region. In contrast to the Nicaraguan and FDR/FMLN reaction, the response to President Duarte's plan from other governments in Central America was highly favorable. On March 15, the presidents of Guatemala and Honduras and the president-elect of Costa Rica asked the Nicaraguan Government to accept the proposal to seek a dialogue between the Sandinistas and the opposition.

EL SALVADOR—STABILITY OF THE DUARTE ADMINISTRATION

Question. Recent reports seem to indicate that President Duarte's popularity may be ebbing, due to the unpopularity of the economic austerity program, and other factors. What is the State Department's assessment of Duarte's support in El Salvador?

Answer. President Duarte has solid support in El Salvador. His Christian Democratic Party, in fact, surprised many observers in March 1986 by winning a majority in the legislature. When the leftist opposition in San Salvador staged a February 21 anti-government demonstration against his new economic adjustment measures, it drew only 7,000–10,000 marchers. In contrast, a March 15 demonstration in support of the government drew 35,000–45,000 participants.

That President Duarte has been able to make and enforce controversial decisions (relating, for instance, to the negotiations for his daughter's release, the Christmas truce, and the economic adjustment package) demonstrates his continued strength. He has the authority and political strength, won in free and fair elections, to make the tough decisions.

Question. How seriously will his propularity and ability to govern be affected by the austerity program?

Answer. President Duarte's austerity measures were controversial but necessary. Although generating some opposition, he is confident that the measures are important to El Salvador's future.

There has been short-term discontent, from both the recalcitrant right and the radical left; the opposition marshalled what support it could in a demonstration attracting only 7,000–10,000 participants on February 21. A much larger demonstration, with 35,000–45,000 participants took place on March 15 in support of the government.

We expect President Duarte to emergy from the controversy over his economic measures with his authority reconfirmed and, incidentally, with a stronger economic future for El Salvador.

EL SALVADOR—AGRARIAN REFORM

Question: Has the support of peasant unions for the GOES diminished significantly due to the perceived lack of concrete government support for the agrarian reform?

Answer. The majority of the 35,000–45,000 pro-government marchers on March 15 were peasants, beneficiaries of land reform. Similarly, the 20,000-member peasant federation, ACOPAI, refused to take part in the February 21 demonstration against the government, despite urgings from the demonstration's leftist organizers.

The Salvadoran Government's firm support for land reform is evident. More than 570,000 Salvadorans have already benefitted from the land reform program. The government continues to streamline the land reform process and to make technical assistance and credit available to large numbers of El Salvador's formerly landless peasants. On February 13, the Legislative Assembly approved a new land registry law, proposed by the Duarte Administration, which will permit accelerated titling and improved administrative services to beneficiaries. The government has also reorganized the agrarian reform implementing agencies, ISTA (Phase I) and FINATA (Phase III), to accelerate the compensation and titling process and to reduce the role of the state in the management of cooperatives. The government recently started work on enabling legislation for the relatively small amount of land (approximately 17,000 hectares) believed to be covered by Phase II. We expect implementation on schedule, at the end of this year.

EL SALVADOR: REPORT ON DIALOGUE AND AID LEVELS

Question. What is the status of this report?

Answer. Through an administrative oversight, preparation of this report has been delayed. Pursuant to the Committee request, it is our intention to review the parameters for the report with the Committee and to provide a final submission as soon thereafter as possible.

EL SALVADOR: GRAMM-RUDMAN EFFECTS ON ASSISTANCE

Question. Considering the bind the Administration has gotten us into with Gramm-Rudman, what steps are you taking to revise the policy so it is more consistent with the tight budget atmosphere we will face for years?

Answer. Our approach to Gramm-Rudman in El Salvador is the same as elsewhere; to request adequate funding for priorities and ensure that overall deficit targets are met. The Administration's current budget request adheres to Gramm-Rudman guidelines.

The President has repeatedly stated the national security importance of the Central American region and El Salvador in particular. The National Bipartisan Commission on Central America affirmed that importance. Beyond that, El Salvador has provided an example to the rest of the world of how democratic reformers can transform their own society and simultaneously defend against marxist-leninist opportunism and violence; they deserve our full help.

In supporting the Government of El Salvador, we are doing what is best for us and what is best for the people of El Salvador. We are determined that they will have the necessary backing.

Question. Has the Administration communicated to the governments in Central America that the Gramm-Rudman constraints will have a deep impact on funds available there in the future?

Answer. Our neighbors in Central America have been informed of our budgetary constraints. From their own experience they understand them; Presidents Duarte, Monge, and Cerezo have each implemented sweeping austerity measures in their own countries, with precisely the same goal as Gramm-Rudman, sound economics.

That said, our friends in Central America face a threat which has disrupted their economies and threatened their citizenry. They have reacted by increasing, not diminishing, democratic safeguards and enlarging the popular bases of their governments.

We are determined to support our friends in reforming their own societies and defending against marxist-leninist aggression. We will continue to consult closely with our Central American friends to ensure maximum efficiency and impact in our assistance. We will also continue to closely monitor our assistance to ensure that all resources are properly directed.

EL SALVADOR—AGRARIAN REFORM

Question. Does Duarte's government (GOES) have the political will and the wherewithal otherwise to carry the agrarian reform (Phase I, II and III) through?

Answer. The GOES clearly has the political will to carry agrarian reform programs through. For instance, on February 12 the Legislative Assembly passed a new law proposed by the Duarte administration to streamline land registry procedures. The government has also reorganized the agrarian reform implementing agencies, ISTA (Phase I) and FINATA (Phase III), to accelerate the compensation and titling process and to reduce the role of the state in the management of cooperatives. The government recently started work on enabling legislation for the relatively small amount of land (approximately 17,000 hectares) believed to be covered by Phase II. We expect implementation on schedule, at the end of this year.

Mr. OBEY. What specific GOES measures to accelerate the reform process have been leveraged by conditionality under the ESF balance of payments programs?

ANSWER. Starting in 1985, A.I.D. and the GOES identified the major issues affecting the agrarian reform and the GOES intitiated a comprehensive program to address those issues. To date, ISTA has been reorganized, titling has been increased and the number of professional managers and accountants placed in the cooperatives has increased. In planning for the 1986 ESF balance of payments support program, the Government of El Salvador stated its intent to: (a) accelerate titling and compensation so as to further complete Phase I cooperative titling by December 31, 1986, and Phase III beneficiary titling in 1987, (b) restructure the Phase I cooperative debt, (c) define beneficiary rights, and (d) enact legislation revising the property registry system, which has been an impediment to the completion of Phase III titling.

Mr. OBEY. What policy changes/measures, if any, which State/AID believe are necessary will the GOES not agree to or is intentionally delaying implementation of? Why?

ANSWER. There are no policy changes/measures that State/AID believe are necessary that the GOES does not agree to or is intentionally delaying. However, in 1985 there was only partial progress in implementing several major, and jointly-agreed, components of the reform including titling and compensation, definition of beneficiary rights, and restructuring of the Phase I cooperative debt. The fact that the government is fighting a war makes it difficult to devote as much effort to domestic issues as would otherwise be the case.

At present, the National Assembly is considering legislation that would restructure the cooperative debt by: (a) reducing the interest rate on the cooperative debt; (b) extending grace and amortization periods; and (c) by suspending repayment of emergency production credit received during the first weeks of the reform in 1980. The GOES proposals for redefining beneficiary rights is expected to be submitted to the National Assembly by President Duarte later this year. Compensation of former landowners is expected to accelerate in 1986 with the budgeting by the GOES of 140 million colones under the terms of the ESF balance of payments program and an additional 40 million colones in its ordinary budget for compensation. All titling and compensation is scheduled to be completed by the end of 1987.

Mr. OBEY. Now that the U.S. Congress has lifted its prohibition against U.S. compensation of former landowners, has the compensation process been accelerated? If not, why not?

ANSWER. Through January, 1986, 321 of 469 Phase I landowners had been compensated 38.4 million colones in cash (plus 463.1 million colones in bonds) and 1,425 of 4,500 Phase III landowners had been compensated 26.9 million colones in cash (plus 26.9 million in bonds). During 1985, the GOES provided 64.0 million colones of its own local currency for compensation in compliance with its commitment under our ESF agreement. The 1986 ESF agreement will require that the GOES make available up to 180 millicn colones from its own resources to pay obligations due former landowners, including 140 million colones made available from the local currency deposits required under our 1986 ESF program.

Compensation will include: (a) the cash portion of all Phase I and Phase III cases scheduled for settlement; (b) the redemption of the Series A Preferred Bonds (which become due in May 1986); and (c) interest due on already-issued agrarian reform bonds through December 1986. In 1987, an additional 26.5 million colones will be made available by the GOES to complete Phase III compensation. The proposed schedule should permit the GOES to complete all compensation and titling on Phase I farms in 1986 and on all Phase III properties in 1987. By the end of 1987, the GOES should also be current on bond redemption and interest due on outstanding bonds.

AID does not plan to use ESF dollar resources for compensation. Local currency is the appropriate means for payment of compensation and will be available in sufficient amounts in 1986 and 1987 to complete compensation requirements. Accordingly, AID authorized the El Salvador Mission to negotiate the use of GOES-owned local currency for this purpose. This permits the use of scarce ESF dollars for priorities requiring foreign exchange. We anticipate that the Mission will sign the agreement making local currency available for compensation before the end of April.

Mr. OBEY. During 1985, the GOES was to have established a commission looking into the restructuring of the agrarian debt. Was the commission established; if so, has it reached any conclusions and made any recommendations? What are they?

ANSWER. An inter-ministerial commission constituted bv the Ministers of Planning, Agriculture, Finance, and the President of the Central Bank was formed in May 1985. The Commission set up a technical staff to study options for restructuring the land debt of Phase I cooperatives and for disposing of the emergency production credits granted in 1980. The technical staff concluded that it was unrealistic to expect Phase I cooperative membership to achieve financial viability with a debt burden of over 800 million colones. It submitted its recommendations to the Commission for endorsement in September 1985 and the President is expected to announce decisions on debt restructuring shortly.

We expect the Commission to recommend *inter alia:* a) reduction of the interest rate on Phase I and III debt, b) an extension of the grace and amortization periods, and c) a suspension of repayments of the emergency production credit granted during the first weeks of the reform in 1980.

In concert with the proposed debt restructuring, the GOES has established the goal of completing the titiing process for Phase I by the end of 1986 and Phase III by the end of 1987.

Mr. Obey. The GOES was also to have undertaken a study to come up with recommendations for better definition of beneficiary rights. What is the status of the study and have any recommendations been forthcoming? If so, what are they?

Answer. In 1985, the Government of El Salvador formed a commission to review and define the right and obligations of beneficiaries of Phases I and III of the Agrarian Reform. The completed study touched on a broad range of agrarian reform problems but did not definitively deal with the issues germane to the legal definition of beneficiary rights. However, it contains several important recommendations including one that cooperative financial arrangements be modified so that the campesinos receive, on time and in cash, a substantial portion of the profit from each harvest and are provided a clear explanation of the financial managment of the cooperative.

To follow up this work, the Ministry of Agriculture has hired four full-time lawyers to review the Commission's recommendations and determine the legislative changes requisite to uncontestable definition of beneficiary rights. AID continues to encourage the GOES to develop the legal framework required to define beneficiary rights to include such elements as: membership eligibility; the rights of members who voluntarily leave, or who are involuntarily dismissed; plus, transfer and inheritance rights. An important element of any legislation would be to determine and define the concept of share holdings of cooperative members, and the rules and regulations concerning divestiture of these shares.

El Salvador—Private Sector Policy

Mr. Obey. In his opening statement for his March 5th testimony, Administrator McPherson cited AID support for FUSADES, a non-profit, private sector promotion organization, as an example of AID's assistance for successful institutional development efforts in the region. FUSADES was described as an institution for providing non-partisan solutions to EL Salvador's economic and social problems. It has been instrumental in brokering policy reforms beneficial to the private sector in that country. It is reported that the rift between the Duarte Administration and major factions in the private sector has been worsening.

Is FUSADES in a position to play a role as mediator between the government and the private sector and, if so, has it played or should it play an instrumental role?

Answer. Some elements of the private sector have used the occasion of Duarte's recent announcement of an economic stabilization program to heighten their public criticism of the Duarte administration. The polemics on both sides result from deep-seated and long-standing mistrust of one another. There are, however, influential moderates on both sides as well who have avoided such polemics and who have maintained a constructive private sector/public sector dialogue. The leadership of FUSADES has consistently followed an apolitical, nonconfrontational approach in its dialogue with the government. In so doing it has been the single most important vehicle for communicating private enterprise views to the Duarte Administration.

While there has not been total agreement on all issues, the constructive dialogue between FUSADES and the government has produced some notable advances for the productive sectors, such as a revised banking law and an export promotion law. It is expected that FUSADES will continue to play this crucial, mediating role.

Mr. Obey. Or is FUSADES allied with more traditional elements of the private sector in El Salvador, including the ARENA Party and/or other extreme right-wing groups? If so, is AID support of FUSADES contributing, in effect, in any way to opposition to President Duarte and his programs?

Answer. FUSADES is a private, non-partisan and non-profit foundation. While some FUSADES members likely have personal political differences with Presisent Duarte, FUSADES leadership has maintained its apolitical institutional posture and, in fact, strongly supported the GOES attempts to formulate a comprehensive economic stabilization program. FUSADES leadership has carefully avoided identification with any political group.

AID believes that FUSADES forms a valuable "bridge" between the private and public sector, minimizing political issues and polemics and focusing on the immediate concern of resolving economic problems and revitalizing the Salvadoran economy. These basic FUSADES objectives seem fully consistent with those of the Duarte government.

Costa Rica—U.S. Assistance

Question. The President of Costa Rica recently indicated that instead of giving military aid to the contras, the U.S. should give economic assistance to other countries in Central America. What is his position on military assistance in Costa Rica? Has the President in fact requested additional military assistance for FY 1987?

Answer. The President-elect of Costa Rica, Dr. Oscar Arias, has not advised us of any additional requirements for military assistance above the levels proposed in the Congressional Presentation Document, nor has he requested that military assistance for Costa Rica be deleted from the Administration's proposed budget.

Question. If Costa Rica were offered the chance to select their own mix of assistance in FY 1987, do you believe they would choose all economic, rather than a portion for military?

Answer. Our assistance programs are based on consultations with receiving governments.

The U.S. Security Assistance Program in Costa Rica has been highly successful. It has significantly improved the level of training and capability of the Costa Rican Public Security Forces and the condition of their equipment. It has been accomplished at low cost ($26.5M MAP and less than $1.0M IMET through the end of FY 85). Also, it has been accomplished within the political reality of a neutral country, witout a conventional armed force, facing an economic crisis, and facing threats posed against its democratic traditions by an increasingly belligerent neighbor. The improvement of the Public Security Forces through equipment and training has been well received by Costa Ricans, not because they desire an army, but precisely because, in the absence of one, they recognize the need for a minimal self-defense capability in order to meet the current threat.

Question. How will the FY 1987 military assistance funds in Costa Rica be used? Is there a backlog of funds from previous years that are still to be programmed or disbursed?

Answer. There is no backlog. The $2.393M MAP budgeted for FY 86 meets only the minimum requirement to maintain equipment obtained in FY 83-85 through the purchase of spare parts. With $3.1M for FY 87, we will maintain the status quo by meeting spare parts and maintenance requirements for existing equipment and procuring some limited individual equipment.

COSTA RICA—PRIVATIZATION OF CODESA

Mr. OBEY. In his opening statement for his March 5 testimony before the Committee, Administrator McPherson cited the Costa Rican Government's divestiture of its parastatal holding company, CODESA, as a good example of AID's success in promoting privatization through policy dialogue. AID expects the bulk of CODESA's assets to be privatized or liquidated by the end of 1986.

What is this support of the divestiture of CODESA costing the U.S. taxpayer? Isn't a substantial portion of our ESF assistance of Costa Rica for FY 85 and FY 86, in effect, funding that process?

Are we really confident that divestiture will be as far along by the end of the year as Mr. McPherson said it would be? Will ESF resources for FY 87 and beyond be required to support a process which the Costa Rican Government should be doing on its own for the good of its economy?

ANSWER. Our ESF aid to Costa Rica provides balance-of-payments support. It has been part of a major effort by the IMF, the World Bank and Costa Rica's private creditors to support the Government of Costa Rica's economic stabilization and recovery program. Our ESF helps finance imports from the U.S. needed by Costa Rican businesses and farms to buy U.S. goods to maintain levels of production and employment.

Importers purchase the dollars with Costa Rican colones which are then jointly programmed by our A.I.D. Mission and the Costa Rican government for mutually agreed development purposes. In 1985, we jointly agreed to use a large portion of these Costa Rican Government local currencies to support the divestiture program.

It is important to note that the level of our ESF assistance is determined on the basis of Costa Rica's need for import-financing. This assistance creates the opportunity to direct equivalent amounts of local currency to various development needs, including the divestiture effort. In 1985, A.I.D. provided $160 million in ESF assistance to Costa Rica for balance of payments support. A.I.D. and the Government of Costa Rica then allocated the local currency equivalent of $140 million to help finance the sale of liquidation of CODESA's holdings. Associated with our ESF assistance in FY 1986 and FY 1987, we plan to add the local currency equivalent of $50 million to support divestiture.

The newly elected President has reconfirmed the commitment of his predecessor to complete the divestiture proceses and to prohibit CODESA from renewing such investments. The decision by the Costa Rican government to use this local currency for this purpose as opposed to other possible projects of greater popularity is indicative of their concern with ending the pernicious influence on the economy that

CODESA represents. By mid-1985 CODESA had accumulated debt at the Central Bank on the order of 11 billion colones and interest on which is running close to $51 million a year.

It is unlikely that the divestiture can be completed by the end of 1986, as originally planned. The first CODESA enterprise to be offered for international sale is the aluminum mill ALUNASA. We hope that the experience gained with ALUNASA will enable other CODESA enterprises to be divested at a more rapid pace.

GUATEMALA—MILITARY AID

Question. Have either of the requirements for military assistance been met? (To date we have not seen either one, and it is our understanding that the President of Guatemala has not formally made the military assistance request).

Answer. By letter to the President of February 11, 1986, President Cerezo formally requested that the Administration proceed with the certification process necessary for Guatemala to receive non-lethal military assistance later this fiscal year. We have not yet made that certification. We will provide Congress with a copy of the formal written request for military assistance when we submit the certification.

Question. The FY 1987 request includes $10 million in MAP for Guatemala. If you have not received a request for military assistance from President Cerezo why has $10 million been included in FY 1987 MAP?

Answer. President Cerezo has indicated his intention to utilize the military assistance funds at an appropriate time following Presidential certification. In response to this request and given the high level of Guatemalan external debt, we hope to make available modest amounts of FY 1986 MAP funds for non-lethal equipment rather than the $10 million in FMS credits that the Administration requested for FY 86, and $10 million in MAP funds for FY 87.

Question. The Country Allocation list for FY 1986 (submitted to the Committee on February 1st) included $4.8 million for Guatemala for MAP. The Committee was originally notified that these funds were to be a part of a proposed reprogramming from Tunisia. However, the Committee has now been informed that that reprogramming is not going to take place. What is the status of the MAP funds proposed Cerezo has not requested the funds?

Answer. President Cerezo has written the President of his intention to utilize U.S. military aid. In accordance with the desires of the Guatemalan government, at an appropriate time, we will make the required certification of human rights progress in the past year and identify the funding sources for the program we have proposed. We will send Congress the required reprogramming notification at that time.

GUATEMALA—U.S. ASSISTANCE

Question. Do you have any indication that the new President of Guatemala would prefer to concentrate on economic and development assistance instead of starting a new MAP program?

Answer. President Cerezo's foremost priority is to obtain international balance of payments support and development assistance to enable him to improve Guatemala's severe economic situation and to address the development problems and economic inequities that are at the root of Guatemala's social strife. To assist Guatemala economically in FY 86 we anticipate providing $35 million in development aid, about $19 million in food assistance, and approximately $48 million in balance of payments support, which is an increase of $23 million over the original Administration ESF request.

We believe that after many years of military rule, it is especially important to help President Cerezo institutionalize civilian rule in his country. We believe that provision of the type of military aid Cerezo may request will strengthen the democratic process and will permit Guatemala to devote its own limited resources to development and economic reform.

GUATEMALA—HUMAN RIGHTS

Question. In regard to the issue of human rights in Guatemala, what steps have been taken by the Administration in terms of a Presidential certification of human rights progress?

Answer. We have been following closely the human rights situation in Guatemala. The Cerezo government has taken a number of positive steps to improve human rights in Guatemala and to gain control over his security forces. When President Cerezo indicates conditions are auspicious for utilization of the non-lethal military assistance we are prepared to provide, we will complete the required certification process. Our intention is to be guided by the desires of the Guatemalan Government on this question.

U.S. ASSISTANCE TO HONDURAS

The largest percentage increase between FY 1986 and FY 1987 for Central American funding is for Honduras. Assistance to Honduras is projected to increase by almost 40% going form $169 million in FY 1986 to $235 million request in FY 1987. About half of the $66 million increase is for military assistance.

Question. If the FY 1987 request were to be approved, what percent of the Honduran domestic and military budgets would be provided by the United States?

Answer. The percentage increase between FY 1986 allocated assistance of $179.867 million and the FY 1987 request of $247.6 million is 37.7%. This percentage increase is larger for three of the six Central American countries which receive U.S. assistance. A nation's economic and security problems do not diminish when appropriated assistance levels are less than those requested; rather, the problems tend to become cumulatively greater. It is therefore instructive to note that the FY 1987 request is only 7.1% greater than the FY 1986 request.

42.9% of the $67.733 million difference between the FY 1986 allocation and the FY 1987 request is for military assistance. Among other factors, this reflects the 32.2% reduction in the FY 1986 military assistance allocation relative to the FY 1986 request, as compared to the 16.0% reduction for economic assistance. 35.9% of the total FY 1987 request is military assistance, as compared to 38.2% of the FY 1986 request.

The Honduran Government 1986 budget totals $943.036 million, of which Defense and Public Security accounts for $67.5 million. There is no direct correlation between U.S. assistance levels and the Honduran budget.

Economic Support Funds constitute 47.2% of the requested U.S. economic assistance. ESF provides balance of payments support to allow the purchase of necessary imports rather than direct budgetary support. U.S. military assistance is treated as an off-budget item by the Government of Honduras, and is used in large measure to procure necessary defense services and materials that Honduras otherwise could not afford.

Question. To what extent does the increase in assistance for Honduras relate to their need for economic and development assistance? Or is our assistance there based on the increased U.S. involvement in "training exercises" and the increased U.S. presence in the country?

Answer. The objective of U.S. economic assistance to Honduras is to promote development and to improve the economic and social well-being of the Honduran people. This, in turn, enhances both Honduran security and the strengthening and consolidation of its democratic government and institutions. U.S. military assistance to Honduras complements the development effort by enhancing the nation's ability to defend itself against both externally-sponsored subversion and Sandinista political and military intimidation.

Question. How many U.S. troops are currently on temporary or permanent assignment in Honduras?

Answer. The only U.S. military personnel permanently stationed in Honduras are Embassy security guards, the Defense Attaché and his staff, and the U.S. military personnel who administer the security assistance program (the Military Liaison Group). Eight U.S. military personnel are assigned for periods longer than six months to Joint Task Force Bravo, headquartered at Honduras' Palmerola Air Base. At the present time (April 1986), approximately 2,100 U.S. military personnel are assigned to temporary duties in Honduras. Approximately 1,200 of those are active duty, reserve, or National Guard personnel participating in short-duration joint and combined military exercises.

Question. How many planned "exercises" and construction activities are planned in Honduras during the year?

Answer. Two combined exercises are under way in Honduras. The General Terencio Sierra 86 combined engineering exercise (January-June) primarily involves National Guard units which are constructing 20 kilometers of unpaved rural road in north-central Honduras. The Cabanas 86 combined exercise (March-June) includes an engineering exercise to construct an austere dirt airstrip to support the subsequent airborne assault exercise and small unit special operations activities.

Other possible combined exercises for later in the year are under discussion with Honduran authorities. These exercises are announced publicly before they begin. Military construction at Honduras' Goloson Air Base, authorized and funded by Congress in 1984, is scheduled for completion this year.

The Committee has learned of plans to construct another airstrip and possible military base in the municipality of San Jose Potrero. Last fall residents of the area were notified that they would have to move in order to make way for a new airstrip.

Farmers in the area have calculated that this would displace between 150 to 200 families who depend on this land for their subsistence.

Question. Are U.S. funds being used for the construction of this airstrip? By that I mean either through the MAP program or through Defense Department O&M or Military Construction funds?

Answer. No. See below.

Question. Is the Government of Honduras undertaking this construction with funds that are made available through any assistance we are giving them?

Answer. No. See below.

Question. Has the United States suggested that this location be developed as an airstrip?

Answer. No. See below.

Question. Is the development of this airstrip connected in any way to programs for the Contras?

Answer. No. See below.

Question. With all of the available land in Honduras, and the need for economic development, why are farmers being relocated to build an airstrip? Are they being reimbursed for their land?

Answer. See below.

Question. How does a relocation of this nature make the U.S. and the Honduran Government look in terms of U.S. involvement in Honduras?

Answer. The U.S. Government has no plans to participate in the construction of an airfield in this region. Moreover, we know of no planning by the Government of Honduras for this project.

Recent combined U.S./Honduran military exercises in Honduras have prompted what appears to be an orchestrated disinformation campaign designed to elicit domestic and international criticism of the cooperation between the Honduran Armed Forces and those of the United States. The apparent cruel attempt to convince Honduran peasants that their homes are threatened and the effort to generate international opposition to a mythical airfield construction project appear to be further examples of the disinformation campaign.

PANAMA: INCREASE IN ASSISTANCE BEFORE DEMOCRATIC GOVERNMENT IS IN POWER

Mr. OBEY. During the past year, the President of Panama has been thrown out of office and an interim government is in place. Even with these uncertainties taking place, the Administration's FY 1987 request for Panama is nearly double the amount provided in FY 1986. (Going from $31 million to $61 million—95% increase).

Why haven't you waited until a democratically elected government has come to power, prior to requesting a large increase in assistance to Panama?

Answer. Panama cannot be categorically described as non-democratic, despite the weaknesses of civilian institutions and the influence of the military on the government. A civilian president heads the Government; an elected Legislative Assembly is performing its legislative functions; basic human rights and civil liberties are generally respected; dissent is relatively freely expressed; and the economy is comparatively open.

Panama faces serious economic problems and opportunities for economic reform. The $60.7 million request for FY 1987 includes $46.1 million in economic assistance. This is actually lower than the $62.6 million in economic assistance the Administration originally requested for Panama in FY 1986. We subsequently reduced planned FY 1986 economic assistance to $22.9 million, primarily because of Panama's inaction in 1985, on needed economic adjustments and Panama's lack of compliance with covenants in prior ESF agreements.

The situation has since changed. The Government of Panama (GOP) recently unveiled a comprehensive economic program. To implement that program, the GOP already passed three important laws and taken other measures to stimulate private enterprise and reduce the government's economic role. The economic adjustment program conforms closely to economic policy suggestions made by the World Bank and AID. The GOP needs support from the IMF, the World Bank, commercial banks and higher FY 1987 levels from AID to implement the adjustment program.

U.S. ASSISTANCE TO PANAMA: ELECTIONS

Question. What are the prospects for elections this year?

Answer. Under Panama's Constitution, the next national Presidential and legislative elections will be held in May 1989. There is no Constitutional provision for earlier legislative elections. The Constitution provides for a special Presidential election in the event that both President Delvalle and First Vice President Esquivel, who were on former President Barletta's ticket in May 1984, leave office more than two years before the next scheduled Presidential election (i.e. before May 1987). There is no present reason to believe that President Delvalle will leave office early.

U.S. ASSISTANCE TO PANAMA: MILITARY AID/ELECTIONS

Question. Half of the increase in assistance for Panama is for military assistance ($15 million). At a minimum shouldn't we wait for elections before giving more power to the military?

Answer. Under Panama's Constitution, the next scheduled elections under present circumstances will be in May 1989. Seeming to encourage extra-Constitutional action to advance that schedule would be in no one's interest. The requested military assistance increase largely compensates for cuts imposed on levels requested for FY-86 by competing priorities in other countries. This assistance supports development of professional military capabilities by the Panama Defense Forces that serve significant U.S. national interests in the defense of the Panama Canal, and support the provision of the 1977 Canal Treaty that Panama participate with the United States in the defense of the Canal. Such assistance does not give more power to the military—it helps orient the Defense Forces to military missions of national security and defense, and away from political influence-dealing characteristic of the local police force from which they descended.

U.S. ASSISTANCE TO PANAMA: CANAL DEFENSE

Question. With 9,000 U.S. military troops stationed in Panama, why do we need to build up the military? Isn't any threat to Panama and the Canal still protected by the United States?

Answer. Defense of the Panama Canal is the principal assigned mission of U.S. military forces stationed in Panama, who also serve a variety of other purposes important to U.S. national global and regional security interests. The Panama Canal Treaties recognize that U.S. and Panamanian military forces have complementary roles in effective defense of the Canal. Certain threats can be answered effectively only by U.S. forces in Panama or elsewhere. Others, particularly terrorist-type threats to U.S. Government operations, installations and personnel so common abroad today, can be most effectively answered by proficient host country military and security forces. Unless the Panama Defense Forces are a competent, effective, professional institution to complement and collaborate with U.S. Forces in Panama, the basic partnership between U.S. and Panamanian nations upon which the Canal Treaties were and are premised is placed at risk.

U.S. ASSISTANCE TO PANAMA: TREATIES

Question. Speaking of the Canal, what is the Administration's opinion on how well the Panama Canal treaty has worked?

Answer. The basic national purpose the United States sought in a new treaty relationship with Panama was defined over twenty years ago: eliminate the causes for conflict that led to the deaths of Americans and Panamanians in January 1964. Four Presidents from both parties endorsed negotiations to this end, and the U.S. Senate gave advice and consent to ratification of the Treaties that entered into force in October 1979. At this point I am not going to indulge in hind-sight second-guessing of the Treaties' worth. Based on over six years' experience, they have served our basic purpose. The Canal continues to provide safe and efficient service to U.S. and world commerce, at no cost to the U.S. taxpayer. U.S. agencies whose activities are related to the Treaties generally encountered no significant impediments throughout this period to the exercise of U.S. treaty rights and implementation of its responsibilities in Panama. Last year, Secretary Shultz joined the Foreign Ministers of Japan and Panama to sign agreements for a feasibility study that will address means of using Panama's location in ways that will serve U.S. national interests that will persist beyond the year 2000 when we cease to be responsible to operate the Canal.

REGIONAL PROGRAMS FOR CENTRAL AMERICA

Mr. OBEY. There are two regional programs proposed in FY 1987 of Central America. The first is the Central America Regional Program requested at $81 million ($1 million above FY 1986) and the second is the Central America Regional Projects Program (ROCAP) which is requested at $63 million, a $42 million or 200% increase over last year. The two regional programs total more than $140 million and are about 12% of the Central American program. To what extent have regional program funds become slush funds that AID can use however they wish?

Answer. Funding for regional program in Central America has been increased in accordance with recommendations of the National Bipartisan Commission for Central America (NBCCA). The higher levels are in part attributable to increased amounts for programs specifically recommended by the NBCCA: Central America Peace Scholarships, Trade Credit Insurance Program (TCIP), and Regional Administration of Justice and Strengthening Democracy projects. Also proposed under the regional programs are new projects for Export Agribusiness Development and Promotion, Shelter and Urban Development, and Rural Electrification Support, and additional funding for ongoing projects in Energy Resource Development, Regional Agriculture Higher Education, and several ROCAP agricultural and rural development projects.

Funds for regional programs are typically subject to the same project development, review and approval process which apply to bilateral programs, and regular congressional notification procedures apply.

The regional program does include a limited amount of project development and support funds similar to bilateral programs. These funds are used for feasibility studies, technical and financial analyses for project development and some short-term technical assistance for project support and evaluation.

CONTROL OVER REGIONAL PROGRAM FUNDS

Mr. OBEY. How much control do you have over the use of funds in the regional programs?

ANSWER. Once funds have been appropriated and operational year budgets established, the LAC Bureau has full control over Central America regional program funds. As with our bilateral program in Central America, the ROCAP programs are reviewed and approved by AID/Washington through a process which involves strategy papers, action plans, budget submissions and where appropriate, individual project reviews.

We have decentralized project review/approval authority to field missions like ROCAP in order to streamline implementation of the Central America Initiative. Subsequent to the project identification process, a determination is made by AID/W management as to where the intensive review of the project will take place. Most, but not all, ROCAP project reviews are held in the mission. All other regional projects are reviewed and approved in Washington.

We impose an additional discipline on ROCAP projects not common for bilateral programs. All proposed projects are discussed with the bilateral missions during the project identification and preparation process. Each mission is requested to review and comment on regional projects before they are approved for funding.

Projects funded under the Central America Regional Program are reviewed at two stages: project identification and final project design. Washington-based officers of the Bureau for Latin America and the Caribbean either directly manage or coordinate Mission efforts in implementing these projects.

Mr. OBEY. Why are funds requested in regional programs instead of by country?

ANSWER. Generally, we request funds for regional programs instead of individual country programs in the following situations:

1—a problem to be addressed transcends national boundaries, and there are regional institutions, supported by Central American Governments, with higher levels of expertise to address the problem than national institutions. Examples: agricultural pest control, coffee rust, environmental degradation, watershed management, energy conservation.

2—we can effectively complement bilateral programs by channeling assistance through financial and service institutions which operate in most or all of the Central American countries. Examples: Central American Bank for Economic Integration, the Latin American Agribusiness Development Corporation, the Latin American Export Bank, Cooperative Housing Foundation, etc.;

3—a centralized administrative role is important to the success of a multi-country program, particularly in establishing uniform policies and procedures, coordinating implementation, and maintaining oversight.

Examples: Central American Peace Scholarships Program, Judicial Administration and Strengthening Democracy, Trade Credit Insurance Program.

4—an important objective in providing the assistance is to strengthen the capability of an institution to serve regional needs on problems common to all countries. Examples: business education programs of Central American Business Administration School (INCAE), small farm production research by the Regional Agricultural Center for Training and Research (CATIE).

Mr. OBEY. Provide for the record a listing of how the funds in FY 85 were distributed by country, and how the FY 87 funds will be broken out.

ANSWER. For most of the regional programs, particularly those carried out by regional technical institutions, expenditures are accounted for by activity, rather than by country. Much of the work of these institutions consists of training courses and seminars, research and development, and information dissemination which benefit the region as a whole and cannot be easily disaggregated on a country-by-country basis. Further, given an institutional strengthening objective, some of our financing is provided in the form of technical assistance, staff support, etc. for the institution responsible for implementation.

For some of the regional programs managed by AID/Washington, we do work out an allocation of funds by country. The country breakdowns for several of the larger programs are shown below:

I. CENTRAL AMERICA PEACE SCHOLARSHIPS PROGRAM

[Funding in million dollars]

	Fiscal year—		
	1985	1986	1987
Belize	0.8	1.0	
Costa Rica	5.4	5.8	
El Salvador	3.4	5.8	
Guatemala	5.1	5.8	
Honduras	2.6	5.8	
Panama	5.4	8.1	
ROCAP	0.8	1.0	
	$23.5	$33.3	$33.0*

Note.—Country breakdown in FY 87 to be determined, but will be comparable to proportional distribution in FY 86.

II. TRADE CREDIT INSURANCE PROGRAM [TCIP] GUARANTY AUTHORITY [1]

[Millions]

	Fiscal year—		
	1985	1986	1987
Belize	5		
Costa Rica	100		
El Salvador	75		
Guatemala	25		
Honduras	50		
	255	[1] 250	

[1] Note.—Country allocations shown here are for guaranty authority only. While funds requested from Congress are held as a reserve against possible defaults, no such claims have yet occurred. Therefore it is not possible to show a country breakdown for actual use of appropriated funds for TCIP.

The allocation of guaranty authority for FY 1986 has not yet been made.

III. CENTRAL AMERICA ENERGY RESOURCES

[In $ thousand]

	Fiscal year—		
	1985 funds		
	Expenditures through 12/31/85	Planned	1987
Costa Rica	1,506	2,448	
El Salvador	197	180	
Guatemala	847	346	
Honduras	1,070	707	
Panama	197	201	
To be allocated		2,500	
Totals	3,818	6,382	[1] 5,000

[1] Note.—The allocation of requested FY 1987 funds to specific activities will be based on continuing experience in utilization of FY 85 funds.

Mr. OBEY. How do you explain the large increase in the ROCAP program? This is the largest percentage increase in Central America.

ANSWER. The National Bipartisan Commission on Central America recommended additional support for regional institutions and regional economic programs in Central America. In accordance with those recommendations, we have attempted to increase funding for regional programs through both ROCAP and Washington managed Central America Regional programs.

ROCAP obligated $105.8 million in FY 1985 (total FY 1985 obligations for Central American Regional Programs were $160.5 million.) We requested $68.5 million for FY 1986 ROCAP programs (the total Central American regional program request was $148.5 million.) The FY 1987 request of $63.0 million is a large increase only because we sharply reduced FY 1986 ROCAP funding below the originally planned level. The reasons for the reduction were:

—we did not need all of the $12.5 million planned for the Central American Bank for Economic Integration since we were able to provide all but $3 million of this funding through reprogramming in late FY 1985;

—we decided not to proceed with the Common Market Revitalization project ($16.0 million) following the results of a technical feasibility study; and

—in the context of overall budget reductions and Gramm-Rudman-Hollings, we deferred incremental funding for the Regional Agricultural Higher Education project ($12.0 million).

In summary, the assistance level for ROCAP in FY 1986 is far below our original plan and reflects changing circumstances on project funding needs. Our request for FY 1987 is comparable to the requested level in FY 1986, consistent with our strategy to increase funding for ROCAP-managed programs, and based on our current estimate of project requirements in FY 1987.

PROBLEMS OF SOUTH AMERICA

Mr. OBEY. The FY 87 request for countries in South America totals $275 million, and represents a $84 million or 45% increase over last years appropriation. Although this is a large percentage increase, the $275 million for all of South America appears small along side the $1.2 billion for Central America.

Are we in fact overlooking the important problems of South America, which has a much larger population than Central America?

ANSWER. No, I think not. The Administration is very concerned about the important problems of South America—the staggering debt burden, economic recession and underdevelopment in many countries, illicit drug production and trafficking, and growing terrorist threats in some countries. Unfortunately, the U.S. ability to assist with these problems is limited. However, we are working on several fronts. We have initiated the Baker Plan to help those countries who have major debt burdens. We fund major narcotics control activities in several countries, especially Peru, Bolivia and Colombia. We are particularly encouraged with progress in this area in all three countries. We also are continuing important bilateral concessional assistance programs, managed by AID, in three of the poorest countries of South America—Peru, Bolivia and Ecuador. For the first time we are providing ESF resources in support of the democratically-elected governments of these Andean countries. We are also providing ESF to Uruguay this fiscal year to help that country as it returns to democratic rule.

It is true that AID's priorities are now in Central America and the Caribbean, and most of our concessional assistance now goes to those countries. This is for a number of reasons, including the economic successes of several South American countries during the late 1960s and 1970s such as Venezuela, Brazil, Colombia and Argentina, which have permitted us to phase-out our concessional assistance programs to those countries. All of these countries, however, continue to receive substantial assistance from international financial institutions such as the World Bank, to which the U.S. is, of course, a major contributor.

Question. Of the $84 million increase in assistance to South America, approximately $50 million is for military programs. Is the administration developing a "military solution" answer to the problems of South America (as well as Central America)?

Answer. Our figures differ somewhat from those stated in the question and are as follows:

U.S. BILATERAL ASSISTANCE TO SOUTH AMERICA

[In millions of U.S. dollars]

	Economic	Military
Fiscal year:		
1986 request	186	66
1986 allocation	170	19
1987 request	185	65

These figures show that the Administration request for FY 87 is $61 million over the sums allocated for FY 86, of which $46 million is for military programs. The more appropriate comparison is between the Administration requests for FY 86 and FY 87, which are virtually identical. In the FY 86 allocation process, faced with difficult decisions, we allocated much less than requested for military assistance, notably in Peru. The importance with give to economic aid is demonstrated by the effort we made to allocate nearly the requested level of such aid in FY 86, while greatly reducing military assistance.

The Administration fully recognizes the primacy of economic and developmental problems in the Andean countries where most of our assistance is directed. The proposed military assistance is designed to supplement the economic aid by helping these countries to meet real security threats from guerrilla terrorists and well-armed narcotics traffickers, who are sometimes allied in their efforts to undermine and weaken democratically elected governments. Our military assistance makes it less necessary for these countries to divert resources from development to essential security purposes.

With regard to Central America, our programs follow the recommendations of the Bipartisan National Commission, as approved by Congress in the authorization act last year, which recognize that social and human progress, economic growth and political reform must be pursued along with efforts to achieve regional security. Economic aid to Central America in the typical year is four to five times the size of our military program.

Question. Based on the narcotics situation and the repayment problems, why are you proposing a $56 million increase in assistance to Peru? (Funding is requested to go from $32.1 million in FY 1986 to $88.5 million in FY 1987)

Answer. Peru's record on narcotics since President Garcia took office has been impressive. Garcia has made a strong commitment to narcotics control. His government has carried out aggressive interdiction efforts in the Condor operations and coca eradication has proceeded despite the violence spawned by those efforts. Peru's ineligibility to receive new assistance because of arrears to the USG resulting in the sanctions of the Brooke Amendment has been a serious problem. It appears, however, that Peru is about to make payments to the USG which would lift those restrictions.

There are many compelling reasons for assisting the democratic government of Peru. Peru is one of the largest, yet one of the poorest countries in Latin America. The country's economy slipped badly in recent years (per capita income is now back to 1960's levels) and the government needs encouragement to adopt growth-oriented policies. Moreover, assistance can help assure the survival of the young constitutional government in Peru and strengthen institutions needed to resist narcotics corruption and terrorism.

Question. Approximately half of the increase in assistance for Peru is for Military Assistance (+$25 million). What military threats is Peru facing? (Aren't they facing more important economic threats?)

Answer. Peru faces a serious internal security threat from growing terrorist activities. The Sendero Luminoso (Shining Path) has carried out a brutal campaign first in the highlands and now in the capital. The Sendero's elusiveness and government resource constraints have made the anti-terrorist fight difficult. Another urban terrorist group, the Tupac Amaru Revolutionary Movement (MRTA), has further strained the govenment's ability to bring the violence under control. U.S. assistance focuses on supporting the government in meeting this challenge threatening Peru's democracy. We also believe that MAP and FMS are extremely important if Peru is to diversify its current inventory of Soviet military equipment while continuing to concentrate on its internal security. In addition, we may see more direct coopertion of the military in the anti-narcotics efforts. Military assistance furnished through a civilian government reinforces the democratic process while enabling the government to devote increased resources to its economic problems.

Question. We all understand the need to help the Government of Bolivia but the coca problem in the U.S. is such that we can't be in the position of rewarding countries that are blatantly producing coca with increased U.S. aid. Are we using every resource in our anti-narcotics program to assist the Bolivians with the coca problem? (Note the FY 87 anti-narcotics request for Bolivia is $4.7 million, a 28 percent or $1 million increase over FY 86.)

Answer. The flow of narcotics from Bolivia continues to challenge us. Nevertheless, the government of President Paz Estensorro has made more progress on narcotics control than any previous Bolivian administration. In addition to initiating a voluntary eradication program, the Paz government has significantly stepped up interdiction and the seizure of cocaine hudrochloride and restricted the sale and possession of the principal precursors used in coca paste elaboration. An enforcement presence is being established in the Yungas.

Within current budegtary limitations, we are utilizing all available resources to assist the new Government of Bolivia in its anti-narcotics efforts. These resources include program assistance for eradication, enforcement and public awareness activities, and Drug Enforcment Administration and Customs training. The Bureau of International Narcotics Matters maintains a fully staffed Narcotics Assistance Unit in our Embassy in La Paz and an additional office in Cochabamba to assist the Bolivians in program development and implementation. The DEA staffs offices in La Paz, Santa Cruz and Cochabamba. Because of the commitment of the Paz government, the magnitude of the problem, and as a result of the severe economic crisis facing Bolivia, our international Narcotics Control Request for FY 87 was increased to $4.675 million over the FY 86 request of $3.65 million.

We believe that there is a relationship between the growth of narcotics activity and the decline of stable economic and political institutions. Therefore, while we provied specific assistance for narcotics control purposes, we also provide economic and military assistance in order to contribute to the institutionalization of democracy and the revival of the economy. Given the magnitude of Bolivia's economic problems and the serious efforts the GOB is now making to control narcotics production and trafficking, we believe an overall increase in foreign assistance to Bolivia is justified.

Question. The Administration has forwarded a certification concerning the release of the first half of FY 1986 funds for Bolivia. Do you anticipate the second half of these requirements being met this year?

Answer. We are not prepared at this point to file a certification under section 611(1)(B) which requires that Bolivia meet the eradication targets established in the August 1983 bilateral Project Agreements. As of early April, the government of Bolivia has eradicated about 60 hectares of coca under a voluntary agreement with *campesinos*. Another 500 hectares have so far been identified for destruction. We are cautiously optimistic that this represents the beginning of a sustained eradication campaign.

Question. Based on the fact that we can't get Bolivia to comply with eradication targets, why are you requesting additional funds this year?

Answer. Progress on coca eradication in Bolivia has been modest so far, but we expect more positive action in the future. Of prime importance to U.S. interests at this point, in addition to addressing the narcotics problem, is the strengthening of Bolivian democracy and a return to more orderly economic conditions. There can be little meaningful and sustained action against narcotics or improvement on any other political instability. There has been dramatic economic progress in Bolivia since President Paz took office in August 1985 and began a serious effort working with the IMF to restore economic stability and growth. The political situation has imposed substantially as well. Already, this has reflected itself in stepped-up drug interdiction and the start-up of eradication. Withholding of U.S. support at this critical time, when Bolivia is seeking to wrap up a standby agreement with the IMF and is heavily dependent on outside assistance to keep its economic recovery program on track, will impede, rather than speed up the actions on narcotics that both Congress, the Administration, and the present Bolivian government wish to accomplish. Our request for modest increases in aid to Bolivia is intended to help the Paz government take the desired actions to stabilize the economy and consolidate democracy so that it can devote greater attention and more resources to attacking the narcotics problem.

CHILE IMET

Question. The FY 1987 request includes IMET funds in the amount of $100,000 for Chile. We provided no assistance to Chile last year. Based on the human rights situation in that country, and the dictatorial government, and the U.S. budget situation, why are we starting a new IMET program in Chile?

Answer. Provision of IMET training to Chile is, of course, dependent upon Presidential certification under section 726 of the International Security and Development Cooperation Act of 1981, which addresses the human rights situation among other factors. We do not believe conditions in Chile permit certification at this time. Serious human rights violations persist, as indicated by our 1985 human rights report and by our resolution on Chile approved in the recent session of United Nations Human Rights Commission.

For FY 1987, however, we do not want to rule out the possibility that conditions in Chile might change so that the certification under section 726 could be considered, in close consultation with Congress. If implemented, an IMET program would be consistent with our policy of encouraging a dialogue within Chile on transition to democracy and improved human rights practices. Resuming limited military training would enable us to expand our contacts with the Chilean military, which would over time serve not only our security objectives, but also our interests in democracy and human rights.

Question. U.S. security assistance for Colombia is requested to increase from $21 to $31 million for FY 1987. To what extent is the FY 1987 request responsive to the problems that resulted from the eruption of the volcano in Colombia last year?

Answer. The Administration has requested $20.950 million for Colombia for FY 1987, consisting of $10 million in FMS, $10 million in MAP and $950,000 in IMET. For FY 86 $9.570 million in FMS credits and $870,000 in IMET have been allocated, compared to a request for $20 million FMS and $950,000 in IMET.

The Government of Colombia has not requested assistance from the U.S. for the reconstruction and rehabilitation of areas affected by the eruption of the Nevado del Ruiz volcano last November 13.

However, following the eruption the U.S provided more than $3 million in help to deal with the immediate aftermath of the disaster and in technical assistance and equipment to help the Government of Colombia upgrade its volcano monitoring capibility.

U.S. ASSISTANCE TO SOUTH AMERICAN COUNTRIES

Mr. OBEY. Is the United States continuing to monitor the volcano and the overall disaster situation?

ANSWER. The U.S., through the U.S. Geological Survey and AID's Office of Foreign Disaster Assistance and our Embassy, is continuing to keep an eye on volcanic activity in Colombia. Since the eruption of Nevado del Ruiz last November, the U.S. has provided about $2.6 million in disaster relief, including emergency shelter and supplies and search and rescue operations, as well as scientific and technical support and training to build Colombian institutional capability in monitoring volcano activity.

This month Colombia is assuming full operational responsibility for monitoring volcanic activity. OFDA and USGS will continue to provide periodic technical oversight as needed.

Mr. OBEY. One of the major causes of so many deaths during last year's disaster was the inability to communicate with villages in the path of the mudslide that resulted from the eruption. What steps are being taken to provide better communications to the village areas and to develop evacuation plans? Is there a need for additional U.S. assistance to help with this program?

Answer. The large number of deaths resulting from the eruption of Nevado del Ruiz occurred primarily in Armero. Local authorities in Armero did not warn citizens of impending danger quickly enough to allow them sufficient time to move out of the path of the mudslides.

The Colombian government has made considerable improvement in warning and evacuation systems. This includes wide dissemination and posting of evacuation maps. Commerical radio is now linked into the warning network. Continued threatening activity by Nevado del Ruiz has tested the new systems up to and including actual evacuation. It is unlikely, therefore, that the Colombians will ask the U.S. for assistance in either communications or evacuation planning.

CHILE: OPPOSITION TO GOVERNMENT

Question. Despite pledges from the Pinochet regime to move Chile toward elections in 1989, there appears to have been little progress toward democratization in that country. How firmly in control is Pinochet and has the opposition been gaining strength recently? What are the prospects for a scenario developing in Chile similar to those events which occurred recently in Haiti and the Philippines?

Answer. Comparisons between events in Chile and events in the Philippines and Haiti can be misleading, as major differences exist. Presently, the Pinochet government faces considerable opposition from both democratic and undemocratic groups such as the Communists, but its ability to maintain control over the short term at least does not appear threatened. In the absence of any government readiness to take account of the views of the democratic opposition, prospects for a successful, peaceful transition to democracy are uncertain.

CHILE: U.S. POLICY TOWARD TRANSITION

Question. Are we making a concerted effort to convince the current Chilean government that a return to democracy prior to 1989 is in the best interests of the country? If not, are we convinced that the continuation of the status quo is in the best interests of the U.S. or that the opposition to the Pinochet is too weak to threaten the government?

Answer. U.S policy toward Chile is to support that country's peaceful transition to democracy, just as quickly as Chileans themselves can achieve it. We have publicly supported the democractic opposition's national accord for a transition to full democracy and its call for dialogue with the government.

We have taken no position on a timetable or a specific transition program, matters only Chileans themselves can determine, but obviously would be pleased if a transition should occur sooner rather than later. The Chilean Government is aware of our strong interest in its taking concrete steps now toward implementing a transition. Despite the Pinochet government's rejection so far of any dialogue with the democratic opposition, the U.S. will continue to urge development of a process of consensus-building and dialogue, as serving U.S. national interests as well as those of the Chilean people.

JAMAICA—ECONOMIC REFORMS AND NARCOTICS CONTROL

Mr. **Obey.** The FY 1987 request for the Caribbean Basin area is $338.8 million, which represents a $86 million or 34% increase over FY 1986. Of course central to our concern are developments that have taken place in Haiti. However, we do have questions on other areas of the Caribbean:

Jamaica: The largest increase requested in the Caribbean area is for Jamaica ($133 million for FY 1987, an increase of $45 millin over FY 1986).

Is the Government of Jamaica (Prime Minister Seaga) taking steps toward economic reform and narcotics control that justify such a large increase in funding?

Answer. The Seaga Government has taken difficult economic reform measures which have begun to move the economy in the right direction. They include a major exchange rate devaluation; significant reductions in the public payroll; reduction in import licensing, quantitative restrictions and price controls; privatization of some public enterprises; leasing of most government-owned hotels; and implementation of a major tax reform providing incentives for private sector investment and production. As a result of these measures, tourism revenue has been restored; non-traditional exports have begun to expand rapidly, and coffee and bananas are beginning to register increases in production.

These measures were implemented during a very difficult economic period characterized by a sharp decline in net foreign exchange earnings from bauxite/alumina exports.

Without additional assistance in support of continued difficult policy change, it may not be possible for the Seaga Government to succeed in stabilizing Jamaica's economy without seriously jeopardizing political stability.

With regard to narcotics control, the President determined last January that Jamaica is sufficiently responsive to the United States Government's concerns on drug control for assistance to continue at planned levels. Jamaica eradicated more marijuana in the first five months of 1985 than in any previous year. This was brought about by the creation of a joint Jamaican Constabulary/Jamaica Defense Forces Task Force, which, as of December 1985 had eradicated an estimated 30% of the major fall cannibis crop through a major marijuana interdiction program, and outspoken Jamaican public condemnation of traffickers. U.S. assistance has supported these efforts through funding for eradication and drug awareness, as well as cooperation in narcotics enforcement.

Mr. Obey. The U.S. has supplied more than $150 million in economic support funds to Jamaica in the past two years (through appropriations and reprogramming), and an additional $100 million is requested in FY 1987. Why have efforts for economic stabilization been relatively unsuccessful?

Answer. Despite major economic reforms undertaken by the Seaga Government, economic circumstances have undermined Jamaica's stabilization efforts. Jamaica is highly dependent on bauxite/alumina exports as a source of foreign exchange. Five years ago, net foreign exchange earnings from bauxite and alumina exports were equivalent to 18% of GDP and contributed 20% of the Central Government's revenues. However, last year net foreign exchange earnings from these exports fell 50% and are now equivalent to 5% of GDP and contribute only 6% of central government revenues. This decline in foreign exchange was aggravated by a weak performance in tourism due to public demonstrations against austerity measures that took place during January of last year.

In order to cushion this sudden drop in foreign exchange, Jamaica has borrowed extensively. Its external debt has doubled since 1981 and is now equivalent to 60% of total exports proceeds, compared to 20% five years ago.

As a result of this situation, progress in decreasing the size of the public sector and in deregulating the economy has been a slow and difficult process. Nevertheless, *major* steps have been taken during the past two years. Central government expenditures, which averaged 42% of GDP during the period 1980–1982, have declined to about 36% of GDP in the past two years. This is due partly to significant reductions in the public payroll as well as privatization of some public enterprises. In the area of deregulation, the GOJ has reduced import licensing, quantitative restrictions and price controls. The GOJ also implemented a major exchange rate devaluation and enacted a major tax reform that will provide incentives for both private sector investment and production.

Mr. Obey. When will the U.S. be able to terminate its balance of payments assistance to Jamaica, and upon what premise is such termination based?

Answer. U.S. balance of payments assistance has moderated the impact of the adjustment process and encouraged policy reforms during a period of severe economic decline. Last year's 50% fall in net foreign exchange earnings from bauxite/alumina and disappointing performance in tourism (due to demonstrations against austerity measures) resulted in a severe economic crisis represented by a 5% reduction of GNP in one year. The social costs of economic decline in Jamaica have been quite high. Unemployment is approximately 25 percent and the standard of living is below that of decades past. The Seaga Government, however, has implemented major economic reforms including a major comprehensive tax reform, a reduction in the public payroll, a major exchange rate devaluation, and considerable deregulation of the economy. The recent bauxite downturn has retarded the response of the economy to these policy measures although non-traditional exports have been increasing rapidly during the Seaga Administration.

U.S. balance of payments assistance has helped Jamaica finance needed imports from the United States for the private sector while these important reforms were being implemented. The result has been increased investment and job creation in Jamaica in non-traditional sectors such as agriculture and assembly manufacturing. Indirectly it has avoided a socially disruptive situation.

With continued policy reforms and resulting continued expansion of the non-traditional export sector and progress in the traditional export sector (bananas and coffee production are expanding) as well as the possible eventual rebound of bauxite/alumina production (in the context of lower energy prices) and foreign exchange savings as a result of petroleum price decline, Jamaica may achieve sufficient real growth and no longer require balance of payments support by the end of the decade.

U.S. ASSISTANCE FOR GRENADA

Mr. OBEY. The FY 1987 request does not show any U.S. assistance for Grenada, but it is my understanding that assistance is planned to be provided from the regional program. What specifically is planned for Grenada, and why isn't it shown as receiving any FY 1987 assistance?

ANSWER. Your understanding that Grenada is included within the FY 1987 request for the Caribbean Regional Program is correct. This practice started with FY 1986 in accordance with the Agency's plan to gradually phase Grenada assistance programming back to levels commensurate with the country's Eastern Caribbean neighbors which have traditionally been administered by our Regional Development Office for the Caribbean (RDO/C) in Bridgetown, Barbados.

Notwithstanding the budgetary consolidation, in FY 1987 we are tentatively planning a combined (DA and ESF) assistance level of approximately 22 million. These funds will be used to support infrastructure expansion and maintenance, agricultural diversification and marketing, private sector investment promotion and export development initiatives, factory space construction, and ESF budgetary support.

CARIBBEAN REGIONAL PROGRAM

Mr. OBEY. One of the largest increases in the Caribbean Basin area is for the Caribbean Regional Program (increases by $18 million to $83.6 million).

Why do you have such a large regional program instead of providing programs by country? Is this instead becoming a large slush fund that you can use for whatever purpose you want? Provide for the record, a breakdown of funding under this program by country.

ANSWER. Although we do have certain country-specific bilateral projects, at the program level we have a regional rather than bilateral operation for two main reasons. First, manpower and administrative costs to administer six bilateral programs in the "mini-states" of the Eastern Caribbean would be prohibitively expensive. Second, we are attempting to foster regional collaboration and to strengthen regional institutions (public and private) to meet the development needs of all the countries on a more efficient and economical basis (for both recipients and donors) than would be possible through national and bilateral channels only. Examples of such organization that A.I.D. plans to continue working with include the Caribbean Development Bank, the Economic Affairs Secretariat of the Organization of Eastern Caribbean States, and the Caribbean Financial Services Corporation.

With respect to the size of the program, the small Eastern Caribbean island economies suffer from serious development constraints including tiny domestic markets, very limited natural resource endowments, high infrastructure and transport costs per unit, and dependence on traditional agricultural commodities such as sugar and bananas. Consequently effective assistance tends to be relatively more costly per capita than in many larger country programs. Strategically, A.I.D. helps stimulate export-led, diversified private sector growth and employment generation, focusing on the three productive sectors of light industry, tourism and agriculture. The program includes regional and bilateral projects, tailored to pursue this strategy. (The proposed A.I.D. level for FY 87 is $70.8 million, not $83.6 million, and includes both DA and ESF.)

[CLERK'S NOTE: Total foreign assistance for the Caribbean Regional Program for FY 1987 requested by the administration is $83.6 million.]

One reason for the increased funding of the program in FY 1987 is that we trying to make up for deferred FY 1986 activity. The Caribbean region suffered severe FY 1986 budget cuts because of earmarking for certain countries in other parts of the world. The Caribbean regional program budget in FY 1986 was cut by over $11 million from what had been proposed in the FY 1986 CP, ie., from $66.1 to $54.8 million.

Finally, the region's strategic importance to the United States remains very high. For obvious reasons, Grenada has required a disproportionately high level of funding over the past three years which it will only be possible to reduce gradually ($22 million estimated for FY 1987). All of the countries of the Eastern Caribbean region are democracies and subversive threats are in evidence including Soviet and Cuban interests.

Estimated funding levels, by country, are provided below:

Fiscal year 1987 Assistance to the Eastern Caribbean by country [1]

Fiscal year 1987 level:	*($ millions)*
Antigua	9
Dominica	9
St. Vincent	10
St. Kitts	10
Grenada	22
St. Lucia	11
Total	71

[1] This projection is illustrative. Country level programming of activities will be determined on the basis of the economic and technical analyses conducted during program implementation. Regional technical assistance and training costs have been allocated on a relatively equal basis between countries.

U.S. Assistance to Haiti

Question. Since most of the members of the council and the recently appointed cabinet are closely associated with the previous Duvalier government, what assurance do you think we have that the military-civilian council will retain the support of the people and fulfill the promises made by General Namphy?

Answer. A few days after this question was posed, General Namphy took advantage of the sudden resignation of one member of the National Council of Government, Gerard Gourge, to dismiss from the Council and cabinet those men associated with Duvalier. At the installation of the revised Council on March 21 and again with the presentation of the six new cabinet members on March 24, General Namphy reiterated his pledges concerning elections and human rights. Demonstrations calling for a civilian government stopped completely following the installation of the new cabinet. Ten of the 12 ministers are civilian and all have reputations as anti-Duvalierists or apolitical technocrats.

Question. Assuming the best, when would you expect elections to be held?

Answer. The provisional government plans to have a 19 person consultative body with representation from each of the provinces assume the responsibilities of overseeing the drafting of a new constitution and political parties law as well as scheduling and conducting elections. The consultative body has not yet been formed because provincial leaders are having trouble agreeing on which candidates to propose. Assuming the consultative body is formed soon and pursues its program aggressively, the electoral process should be well underway within two years. The Haitian government envisages four separate elections for rural, municipal, National Assembly positions and ultimately for the presidency.

Mr. Obey. Do you at this time have any plans to either increase assistance for Haiti or to change the mix in assistance?

Answer. We consider our current program to be valid in view of fundamental development circumstances in Haiti—i.e., extreme poverty, natural resources degradation, high unemployment, poor health status and illiteracy. These are urgent problems that need to be addressed now. The current program focuses on private sector-led export development, stabilization of the agricultural base, child survival and basic education.

To deal with the emerging short-term problem, we are now providing some $10 million in additional emergency PL 480 Title II assistance, to supply Haiti with both wheat and edible oil for two months. We are also providing highly specialized technical assistance to help the government take better advantage of falling petroleum prices. Local currencies jointly programmed by A.I.D. and the GOH will be increasingly targeted at job creation. We are reviewing our private sector program to stress increased permanent job creation, particularly to take advantage of opportunities offered under the Caribbean Basin Initiative. We have had some success in policy reforms with the previous government in shifting the tax burden away from the poor and in encouraging increased farm income. We will explore further reforms with the GOH toward liberalizing the trade regime, reducing and then eliminating price controls and reform and eventual privatization of parastatals.

We will watch the emerging situation carefully and keep the Congress informed regarding any additional resources that might be required.

Mr. Obey. How will our aid program encourage the movement toward democracy and political pluralism?

Answer. We believe U.S. assistance will encourage the movement toward democracy and political pluralism in Haiti by providing economic relief essential to allowing the provisional Haitian government to keep its commitment to return Haiti to a democratic, pluralistic society.

Because Haiti's severe long-term development problems have been aggravated by a near-term foreign-exchange crisis, constraining its capacity to import food and petroleum, we have initiated steps to help provide some relief and assure a measure of economic stability, which will allow the democratization process to proceed. To maintain sufficient supplies of wheat, for example, we have already supplied 15,000 MT under Title II, and will be providing an additional 17,000 MT of wheat and 5,000 MT of vegetable oil. Similarly our Title III effort programmed at $18 million for FY 1986, will also provide wheat and vegetable oil. Local currency from the sales of these commodities will be used, in part, to creat jobs for the unemployed. This additional food assistance provides substantial balance-of-payments relied.

Mr. OBEY. What safeguards are you placing on assistance to Haiti to protect against waste, fraud and abuse?

ANSWER. We will continue to implement much of our assistance program to Haiti through PVOs and other non-governmental organizations. Our full-time staff in Haiti will carefully monitor all project activities and disbursements. Also, we will carry out frequent evaluations of our projects through independent private organizations and request independent audits. In addition, we will assess our controls and accounting procedures to determine how they can be strengthened. Finally, we have requested the A.I.D. Inspector General to review our PL 480 Title I and Title III programs in Haiti.

Question. After the initial goodwill of the government toward human rights freedoms, do you see a continuation toward human rights progress?

ANSWER. Absolutely. The provisional government has allowed and encouraged complete freedom of the press. Several new newspapers started in the last month and two new radio stations are expected soon. The government has welcomed the return of exiled politicians, journalists and clergy, choosing not to enforce the Duvalier law which required Haitians abroad to obtain return visas. The Jesuit and Holy Ghost religious orders, which were expelled about 20 years ago, have also been given permission to return to Haiti. Government leaders publicly and strongly endorsed the recently inaugurated Catholic Church literacy program. Civil order and curfews, when imposed, have been maintained without violence. Protesters have been allowed to march and demonstrate freely. Extradition is being sought of former officials accused of crimes. The new Minister of Justice is a respected jurist. In summary, the provisional government continues to demonstrate a profound respect for human rights.

MEXICO

Question. How will the US help Mexico meet the challenges which are offered by the worsening economic situation? How are we encouraging the Mexican Government to get its economic house in order?

Answer. Secretary Shultz, Secretary Baker, Chairman Volcker and Ambassador Gavin have consulted frequently with top-ranking officials of the Mexican Ministry of Finance, Foreign Ministry and Bank of Mexico. In these meetings, and in subsequent public announcements, Mexican officials have stated that the primary responsibility for restoring stability to the Mexican economy rests with the Government of Mexico.

Mexican officials have been meeting with representatives of the International Monetary Fund in an attempt to reach agreement on the terms of a new Standby Agreement. They are also discussing with the World Bank the terms of a substantial trade adjustment credit. We are supporting both of these initiatives. We are also encouraging Mexican officials to persevere with the trade and investment liberalization measures they initiated in 1985 and to pursue vigorously their plans to implement structural reform measures.

Question. Could illegal emigration increase dramatically over the coming years from Mexico to the U.S.?

Answer. Yes, it could increase dramatically if economic conditions in Mexico were to continue to worsen. It is one of the major reasons the Administration supports fair and effective immigration reform. Since most undocumented migrants come to the United States in search of employment, we consider employer sanction proposals especially important in lessening the "pull" factor of U.S. jobs. Immigration and Naturalization Service Commissioner Alan C. Nelson recently expressed in view that economic troubles in Mexico and Central America were largely responsible for the growing number of people entering the United States illegally. The Commissioner stated that the best deterrent to illegal immigration is to remove the attractions of easy-to-obtain jobs.

Question. What are the ramifications of the U.S. of a steadily worsening Mexican economy and increasing social unrest?

ANSWER. A principal objective of U.S. policy in Mexico is to assist the country's economic recovery and stability. Mexico is our third largest trading partner, our largest foreign supplier of petroleum, one of the five leading foreign markets for our agricultural exports and one of the top three sites in Latin America for U.S. direct foreign investment.

U.S.-Mexican economic interdependence is extensive. If Mexico's economic situation were to steadily worsen and social unrest were to increase, it would have a depressing effect on U.S. export and investment performance. Economic conditions in U.S. border communities would be among the first to be affected, and illegal immigration from Mexico would probably increase. The length of the economic downturn and the price Mexico were to receive for its oil would determine the extent of the impact on the United States. If the price of Mexican oil were to remain low—$10 or less—for an extended period, the country's ability to import U.S. goods and services and to continue servicing its external debt to U.S. commercial banks would also be affected.

Mexican society has demonstrated a remarkable stoicism and resiliency in coping with the burdens of economic austerity since the onset of the country's financial crisis in August 1982. Even though Mexican society faces a continuing period of austerity, we do not anticipate any major social unrest. Some observers expect the price of petroleum to rebound later this year to the $18/bbl range. Should that occur, Mexico's economic and financial condition would improve markedly and the negative effects of the Mexican economic downturn on the United States would diminish.

Questions Submitted by Mr. McHugh

EXPENDITURES FOR JUDICIAL REFORM IN EL SALVADOR

Mr. McHUGH. What expenditures have been made to support judicial reform in El Salvador?

ANSWER. As of December 31, 1985, $666,000 had been expended. Approximately $500,000 of those expenditures were for the Special Investigative Unit.

PROGRESS IN JUDICAL REFORM IN EL SALVADOR

Mr. McHUGH. What progress has been made in judicial reform in El Salvador?

ANSWER. Considerable progress has been made under the El Salvador Judicial Reform project. The Revisory Commission on Legislation has been formed, has moved into permanent quarters, hired permanent staff, and established working groups in three areas of potential legislative reform—penal, civil, and administrative. On February 7, 1986 the Commission held a consultative meeting which attracted 210 participants including the President of the El Salvadoran Supreme Court, other Supreme Court magistrates, other judges, representatives of the Attorney General and Solicitor General, Justice and Defense Ministry officials, law school deans, and lawyers. In April the Commission will begin legislative reform work on topics of priority in each of the three subject areas.

SPECIAL INVESTIGATIONS UNIT

Mr. McHUGH. What cases have been investigated by the U.S.-funded Special Investigations Unit?

ANSWER. The Special Investigative Unit is currently working on the Sheraton murder case, the Romero assassination, the Sullivan murder case, the Armenia Well case, the Las Hojas massacre, the murder of attorney Betancur and the killing of Juan Pablo Mejia. The Unit was also involved in the investigations of the Zona Rosa massacre and the kidnapping of President Duarte's daughter.

JUDICIAL PROTECTION UNIT

Mr. McHUGH. What trials have been protected by the U.S.-funded Judicial Protection Unit?

ANSWER. The Judicial Protection Unit provided protection for participants in the 1984 churchwomen's trial. The Unit is currently being reconfigured into a more qualified group according to a plan worked out jointly by the government of El Salvador and A.I.D.

EL SALVADOR: SPECIAL HUMAN RIGHTS CASES

Question. What is the status of the special cases President Duarte pledged in his election campaign to investigate?

Answer. President Duarte is fulfilling his pledge to investigate the Shraton murder case, the Armenia well case, the Las Hojas massacre, the Sullivan murder case, and the Romero assassination. A unit of the Commission for Investigations, created in July 1985, is working on these cases.

The two gunmen who committed the murders at the Shraton Hotel in 1981 went to trial. The two former National Guardsmen, Santiago Gomez Gonzalez and Jose Valle Acevedo, were each convicted on February 13 on three counts of aggravated homicide. On March 9, five investigators went to Costa Rica to interview ten witnesses for information on the role of Captain Eduardo Avila, one of those who ordered the two gunmen to commit the murders.

Unit investigators are looking into allegations that Walter Antonio Alvarez, a former National Guardsman killed in 1981, was involved in the murder of Archbishop Romero. A reversal of the provisional dismissal of charges against the suspects in the multiple murder known as the Armenia case was recently obtained. A judicial order is being sought to exhume the remains of the victims from the well into which they were believed thrown. In the Las Hojas case the investigative unit is helping develop evidence to support the testimony of two witnesses with previously unknown information on the murders. Unfortunately, investigation into the Sullivan case has not led to any significant new information.

EL SALVADOR: JUDICIAL REFORM

Question. Has the reinstatement of an Attorney General from the ARENA Party slowed the pace of judicial reform?

Answer. Significant progress in judicial reform has taken place since the December 12 reinstatement of ARENA party member Jose Francisco Guerrero as Attorney General.

The case of two gunmen in the 1981 murders at the Sheraton Hotel went to trial; both were convicted on February 13 on three counts of aggravated homicide. Guerrero himself made two separate arguments on behalf of the prosecution.

A 10-member Revisory Commission, established in June 1985, continues its review of the Salvadoran judicial system. To date the commission has focused on identifying priorities; sub-groups have been established to focus on penal, civil and administrative issues. The draft plan of action of these groups was discussed on February 7 in a consultative meeting which attracted over 200 participants, including Supreme Court magistrates, Legislative Assembly deputies, government officials, members of law associations and faculties, and representatives of political parties. The draft plan was revised in 22 areas on the basis of the forum's discussions.

On March 13, the Legislative Assembly created two new Decree 50 trial courts, in addition to the one now functioning, to reduce the backlog and accelerate the processing of national security and terrorist offenses. They are expected to begin work on May 1. Two mercantile courts were also created. The traffic and labor courts were adjusted to promote rapid resolution of civil cases. The legislation also requires, for the first time, yearly statistical reports on court activities.

EL SALVADOR: PROMOTIONS

Question. Have military officers suspected by the U.S. Embassy of complicity in death squad activities been promoted in the past year? Who are those officers, and what are their new positions?

Answer. Col. Mario Denis Moran and Lt. Col. Ricardo Pozo, suspected of involvement in abuse of human rights, including death squad activities, received automatic time-in-grade promotions.

The Department of State has publicly expressed its regret that, as the human rights and democratic political situation in El Salvador continues to improve, these advances should be marred by the promotion of these two officers. These promotions, however, do not undermine our belief in the commitment and ability of President Duarte and his government to improve human rights in El Salvador.

We understand that both officers continue to be assigned outside of El Salvador: Moran in Washington and Pozo in Asuncion.

TUESDAY, MARCH 18, 1986

AFRICA REGIONAL PROGRAMS

WITNESSES

CHESTER A. CROCKER, ASSISTANT SECRETARY OF STATE, BUREAU OF AFRICAN AFFAIRS

MARK L. EDELMAN, ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

ALEXANDER R. LOVE, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. OBEY. The Subcommittee will come to order.

Today we will be hearing testimony from Assistant Secretary of State for Africa, Chester Crocker; and Assistant Administrator for Africa of the Agency for International Development, Mark Edelman, on the Administration's Fiscal Year 1987 Foreign Assistance Appropriation for that region.

Mr. Secretary, I had a long windy description of what was happening in Africa that I wanted to make reference to. I will refer to only part of it in starting.

I think no matter how you look at Africa, and it measures up pretty much as a basket case, whether you are talking about personal freedom—if you take a look at how most of the African countries rank in terms of political and civil rights, or if you are talking about the conditions of their economy.

AFRICAN ECONOMIC SITUATION

They are in a very serious situation. The external debt in Africa exceeds $125 billion—fairly small as numbers go given some of the problems of other regions—but in terms of the size of the economies of some of those countries, a tremendous debt and massive trade deficit for them. The Overseas Development Council in 1985 stated that,

> When payments on short-term debt, arrears, and payments to the IMF are taken into account, the debt-service ratio exceeds 50 percent for the Sub-Saharan region, and for many countries it exceeds 100 percent. Moreover, the dimensions of Africa's debt problem are expanding rapidly.

The National Journal said,

> Africa's debt service problem is spiraling out of control.

In 1981, African countries spent only 17 cents out of every dollar they earned from exports to pay the interest on their debts. By 1985 they were spending 30 cents. The OECD report says, that,

> The debt burden increases Africa's dependence on the outside world, slows the prospects of economic recovery and growth and jeopardizes the stability of African governments and increases the poverty of Africa's peoples.

The World Watch Institute says that,

> More than 40 percent of Africans live in countries where the productivity of the land is lower today than it was a generation ago.

Africa was forced to import 29 million tons of grain last year.

The GAO had some very discouraging things to say about the Sahel region. I will quote them for the record, but I will not take the time now.

The CIA, in February, stated,

> Sub-Sahara's grim economic situation today is testimony to the failure of over two decades of development effort by African governments, donor countries, and international organizations. The outlook is bleak for the remainder of the decade.

A joint study of the Council on Foreign Relations and the Overseas Development Council, its compact for African development chaired by Larry Eagleberger and Don McHenry, noted,

> Most donors, including international institutions have jumped from one fad to another to justify development expenditures. Donors have gone from the support of infrastructure development to a concern with basic human needs to the most recent heavy focus on agriculture and the private sector.

To sum up, all of those paint a pretty bleak picture and a pretty disturbing picture. I know you are doing your best to wrestle with the situation. I guess my problem, before we begin the hearing, is pretty much the same problem that I had with the Administration's focus on Latin America. In light of these tremendous economic problems, I see the Administration, certainly the White House, focusing a good deal of its attention on efforts to provide direct assistance to Mr. Savimbi. We see the Administration consistently working to hold down total multi-lateral assistance for IDA. And the Administration failed to request funds for the Special Facility for Sub-Saharan Africa last year and this year, although Congress chose to provide that assistance this last year.

DEVELOPMENT AID VS. MILITARY AND ESF

If all of the President's foreign assistance requests were granted by the Congress, which we know is unlikely, the increase from 1981 to 1985 on the development side would have been only about 14 percent. And yet, you see that on the ESF and military assistance side, you are talking about very much larger increases—150 percent from 1980.

[The following was provided for the record:]

AFRICA REGIONAL PROGRAMS

COUNTRY/PROGRAM	FY 1985 TOTAL	FY 1986 TOTAL	FY 1987 TOTAL	-----FY 1986/FY 1987----- DIFFERENCE	PERCENTAGE
Benin	1,354	1,096	1,097	1	0.09%
Botswana	21,227	13,163	18,278	5,115	38.86%
Burkina*	4,342	2,660	2,758	98	3.68%
Burundi	4,358	2,939	3,009	70	2.38%
Cameroon	27,406	23,378	31,409	8,031	34.35%
Cape Verde*	2,070	2,057	2,100	43	2.09%
CAR	4,136	4,102	5,195	1,093	26.65%
Chad*	19,282	14,718	20,250	5,532	37.59%
Comoros	400	779	750	(29)	-3.72%
Congo	1,000	523	590	67	12.81%
Djibouti	6,126	5,360	8,150	2,790	52.05%
Eq. Guinea	1,071	1,123	2,237	1,114	99.20%
Gabon	1,931	1,804	6,777	4,973	275.67%
Gambia*	5,615	4,995	5,031	36	0.72%
Ghana	3,767	4,634	4,775	141	3.04%
Guinea	5,722	6,966	9,131	2,165	31.08%
Guinea-Bissau	3,004	2,048	2,075	27	1.32%
Ivory Coast	161	120	150	30	25.00%
Kenya	65,331	55,404	65,882	10,478	18.91%
Lesotho	11,704	11,290	11,522	232	2.05%
Liberia	75,153	51,809	65,929	14,120	27.25%
Madagascar	7,105	5,378	8,075	2,697	50.15%
Malawi	26,979	11,491	12,799	1,308	11.38%
Mali*	30,546	11,334	12,685	1,351	11.92%
Mauritania*	10,968	4,640	4,738	98	2.11%
Mauritius	7,000	1,914	3,000	1,086	56.74%
Mozambique	13,000	9,570	15,000	5,430	56.74%
Niger*	32,793	27,600	31,183	3,583	12.98%
Nigeria	0	96	100	4	4.17%
Rwanda	18,393	6,166	6,287	121	1.96%
Sao Tome	0	643	350	(293)	-45.57%
Senegal*	42,603	35,658	41,740	6,082	17.06%
Seychelles	2,217	2,252	2,766	514	22.82%
Sierra Leone	3,137	4,332	4,229	(103)	-2.38%
Somalia	84,869	61,809	85,560	23,751	38.43%
South Africa	0	4,785	10,000	5,215	108.99%
Sudan	188,442	108,112	169,757	61,645	57.02%
Swaziland	9,856	9,108	7,925	(1,183)	-12.99%
Tanzania	1,872	1,779	1,978	199	11.19%
Togo	5,529	5,439	5,304	(135)	-2.48%
Uganda	7,946	3,646	5,550	1,904	52.22%
Zaire	47,680	42,866	54,511	11,645	27.17%
Zambia	40,000	15,000	20,000	5,000	33.33%
Zimbabwe	28,214	20,761	21,250	489	2.36%
Sahel Regional*	22,930	19,038	19,000	(38)	-0.20%
S Africa Regional	21,924	32,550	33,000	450	1.38%
Africa Regional	65,938	73,586	80,390	6,804	9.25%
Total	985,101	778,371	999,272	220,901	28.38%
(Funct'l Acc't Total)	(248,901)	(259,743)	(259,902)	(159)	0.06%
(Sahel Program *)	(103,300)	(77,038)	(80,000)	(2,962)	3.84%
(AEPRP)	(75,000)	(47,850)	(75,000)	(27,150)	56.74%

COUNTRY/PROGRAM	FY 1985 DA	FY 1986 DA	FY 1987 DA	-----FY 1986/FY 1987----- DIFFERENCE	PERCENTAGE
Burkina*	2,790	1,000	1,000	0	0.00%
Burundi	3,546	2,019	2,000	(19)	-0.94%
Cameroon	19,622	20,790	21,890	1,100	5.29%
Cape Verde*	2,000	2,000	2,000	0	0.00%
CAR	2,000	2,000	2,000	0	0.00%
Chad*	9,075	4,000	4,000	0	0.00%
Comoros	400	750	700	(50)	-6.67%
Congo	1,000	475	500	25	5.26%
Eq. Guinea	1,000	1,000	1,000	0	0.00%
Gambia*	4,581	4,000	4,000	0	0.00%
Ghana	2,180	3,000	3,000	0	0.00%
Guinea	2,600	3,730	3,730	0	0.00%
Guinea-Bissau	3,000	2,000	2,000	0	0.00%
Kenya	14,159	20,879	17,812	(3,067)	-14.69%
Lesotho	10,300	9,660	9,660	0	0.00%
Liberia	15,385	14,667	13,780	(887)	-6.05%
Madagascar	2,000	1,000	1,000	0	0.00%
Malawi	9,700	9,200	9,220	20	0.22%
Mali*	10,458	9,000	10,000	1,000	11.11%
Mauritania*	9,362	3,000	3,000	0	0.00%
Niger*	20,000	16,000	17,000	1,000	6.25%
Rwanda	6,238	6,000	6,000	0	0.00%
Sao Tome	--	600	300	(300)	-50.00%
Senegal*	22,104	19,000	20,000	1,000	5.26%
Sierra Leone	--	1,300	1,300	0	0.00%
Somalia	20,737	14,772	18,410	3,638	24.63%
Sudan	28,000	28,000	28,000	0	0.00%
Swaziland	8,112	7,600	6,500	(1,100)	-14.47%
Togo	3,100	3,060	3,060	0	0.00%
Uganda	7,940	3,550	5,350	1,800	50.70%
Zaire	23,944	20,050	19,300	(750)	-3.74%
Zimbabwe	--	11,000	10,000	(1,000)	-9.09%
Sahel Regional*	22,930	19,038	19,000	(38)	-0.20%
S Africa Regional	3,000	3,840	3,000	(840)	-21.88%
Africa Regional	60,938	68,801	70,390	1,589	2.31%
Total	352,201	336,781	339,902	3,121	0.93%
(Funct'l Acc't Total)	(248,901)	(259,743)	(259,902)	(159)	0.06%
(Sahel Program *)	(103,300)	(77,038)	(80,000)	(2,962)	3.84%

	FY 1985	FY 1986	FY 1987	-----FY 1986/FY 1987-----	
COUNTRY/PROGRAM	ESF	ESF	ESF	DIFFERENCE	PERCENTAGE
Botswana	10,000	7,656	8,000	344	4.49%
Chad*	5,000	4,785	7,000	2,215	46.29%
Djibouti	3,500	3,350	5,000	1,650	49.25%
Kenya	25,000	14,355	22,000	7,645	53.26%
Liberia	43,000	28,710	40,000	11,290	39.32%
Madagascar	3,000	2,871	4,000	1,129	39.32%
Malawi	15,000	--	--	0	
Mali*	18,000	--	--	0	
Mauritius	7,000	1,914	3,000	1,086	56.74%
Mozambique	13,000	9,570	15,000	5,430	56.74%
Niger*	5,000	4,785	7,000	2,215	46.29%
Rwanda	12,000	--	--	0	
Senegal*	15,000	11,484	15,000	3,516	30.62%
Seychelles	2,000	1,914	2,500	586	30.62%
Somalia	30,000	22,011	30,000	7,989	36.30%
South Africa	--	4,785	10,000	5,215	108.99%
Sudan	114,000	59,812	90,000	30,188	50.47%
Zaire	10,415	9,570	16,000	6,430	67.19%
Zambia	40,000	15,000	20,000	5,000	33.33%
Zimbabwe	28,000	9,570	11,000	1,430	14.94%
S Africa Regional	18,924	28,710	30,000	1,290	4.49%
Total	417,839	288,702	410,500	121,798	42.19%
(AEPRP)	(75,000)	(47,850)	(75,000)	(27,150)	56.74%

COUNTRY/PROGRAM	FY 1985 PEACE CORPS	FY 1986 PEACE CORPS	FY 1987 PEACE CORPS	-----FY 1986/FY 1987-----	
				DIFFERENCE	PERCENTAGE
Benin	1,271	1,048	1,022	(26)	-2.48%
Botswana	1,940	1,870	1,878	8	0.43%
Burkina*	1,535	1,612	1,608	(4)	-0.25%
Burundi	671	776	839	63	8.12%
Cameroon	2,637	2,397	2,219	(178)	-7.43%
CAR	2,028	2,006	2,030	24	1.20%
Eq. Guinea	--	66	107	41	62.12%
Gabon	1,806	1,660	1,627	(33)	-1.99%
Gambia*	972	938	956	18	1.92%
Ghana	1,294	1,419	1,475	56	3.95%
Guinea	--	221	251	30	13.57%
Kenya	4,479	4,188	4,270	82	1.96%
Lesotho	1,404	1,630	1,862	232	14.23%
Liberia	3,611	2,666	2,749	83	3.11%
Malawi	1,061	1,143	1,279	136	11.90%
Mali*	1,932	2,190	2,535	345	15.75%
Mauritania*	1,529	1,592	1,663	71	4.46%
Niger*	2,579	2,748	2,908	160	.82%
Rwanda	93	109	212	103	94.50%
Senegal*	1,975	1,826	1,740	(86)	-4.71%
Seychelles	200	290	206	(84)	-28.97%
Sierra Leone	3,077	2,975	2,829	(146)	-4.91%
Sudan	12	12	7	(5)	-41.67%
Swaziland	1,694	1,460	1,365	(95)	-6.51%
Tanzania	1,872	1,779	1,903	124	6.97%
Togo	2,386	2,307	2,169	(138)	-5.98%
Zaire	4,980	5,255	5,611	356	6.77%
Total	47,038	46,183	47,320	1,137	2.46%

COUNTRY/PROGRAM	FY 1985 MILITARY ASSISTANCE	FY 1986 MILITARY ASSISTANCE	FY 1987 MILITARY ASSISTANCE	-----FY 1986/FY 1987-----	
				DIFFERENCE	PERCENTAGE
Benin	83	48	75	27	56.25%
Botswana	9,287	3,637	8,400	4,763	130.96%
Burkina*	17	48	150	102	212.50%
Burundi	141	144	170	26	18.06%
Cameroon	5,147	191	7,300	7,109	3721.99%
Cape Verde*	70	57	100	43	75.44%
CAR	108	96	1,165	1,069	1113.54%
Chad*	5,207	5,933	9,250	3,317	55.91%
Comoros	0	29	50	21	72.41%
Congo	0	48	90	42	87.50%
Djibouti	2,626	2,010	3,150	1,140	56.72%
Eq. Guinea	71	57	1,130	1,073	1882.46%
Gabon	125	144	5,150	5,006	3476.39%
Gambia*	62	57	75	18	31.58%
Ghana	293	215	300	85	39.53%
Guinea	3,122	3,015	5,150	2,135	70.81%
Guinea-Bissau	4	48	75	27	56.25%
Ivory Coast	161	120	150	30	25.00%
Kenya	21,693	15,982	21,800	5,818	36.40%
Liberia	13,157	5,766	9,400	3,634	63.02%
Madagascar	2,105	1,507	3,075	1,568	104.05%
Malawi	1,218	1,148	2,300	1,152	100.35%
Mali*	156	144	150	6	4.17%
Mauritania*	77	48	75	27	56.25%
Niger*	5,214	4,067	4,275	208	5.11%
Nigeria	0	96	100	4	4.17%
Rwanda	62	57	75	18	31.58%
Sao Tome	0	43	50	7	16.28%
Senegal*	3,524	3,348	5,000	1,652	49.34%
Seychelles	17	48	60	12	25.00%
Sierra Leone	60	57	100	43	75.44%
Somalia	34,132	25,026	37,150	12,124	48.45%
Sudan	46,430	20,288	51,750	31,462	155.08%
Swaziland	50	48	60	12	25.00%
Tanzania	0	0	75	75	
Togo	43	72	75	3	4.17%
Uganda	6	96	200	104	108.33%
Zaire	8,341	7,991	13,600	5,609	70.19%
Zimbabwe	214	191	250	59	30.89%
Africa Regional	5,000	4,785	10,000	5,215	108.99%
Total	168,023	106,705	201,550	94,845	88.89%

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	FY 1986/FY 1987	
	FMS				
	(MARKET)	(MARKET)	(MARKET)	DIFFERENCE	PERCENTAGE
Cameroon	--	--	7,000	7,000	
Gabon	--	--	5,000	5,000	
Total	0	0	12,000	12,000	

COUNTRY/PROGRAM	FY 1985	FY 1986	FY 1987	FY 1986/FY 1987	
	FMS				
	(CONC)	(CONC)	(CONC)	DIFFERENCE	PERCENTAGE
Botswana	5,000	--	2,000	2,000	
Cameroon	5,000	--	--	0	
Total	10,000	0	2,000	2,000	

COUNTRY/PROGRAM	FY 1985 MAP	FY 1986 MAP	FY 1987 MAP	-----FY 1986/FY 1987----- DIFFERENCE	PERCENTAGE
Botswana	4,000	3,350	6,000	2,650	79.10%
CAR	--	--	1,000	1,000	
Chad*	5,000	5,742	9,000	3,258	56.74%
Djibouti	2,500	1,914	3,000	1,086	56.74%
Eq. Guinea	--	--	1,000	1,000	
Guinea	3,000	2,871	5,000	2,129	74.16%
Kenya	20,000	14,355	20,000	5,645	39.32%
Liberia	12,000	4,785	8,000	3,215	67.19%
Madagascar	2,050	1,435	3,000	1,565	109.06%
Malawi	1,000	957	2,000	1,043	108.99%
Niger*	5,000	3,828	4,000	172	4.49%
Senegal*	3,000	2,870	4,500	1,630	56.79%
Somalia	33,000	23,925	35,600	11,675	48.80%
Sudan	45,000	19,140	50,000	30,860	161.23%
Zaire	7,000	6,699	12,000	5,301	79.13%
Africa Regional	5,000	4,785	10,000	5,215	108.99%
Total	147,550	96,656	174,100	77,444	80.12%

	FY 1985	FY 1986	FY 1987	-----FY 1986/FY 1987-----	
COUNTRY/PROGRAM	IMET	IMET	IMET	DIFFERENCE	PERCENTAGE
Benin	83	48	75	27	56.25%
Botswana	287	287	400	113	39.37%
Burkina*	17	48	150	102	212.50%
Burundi	141	144	170	26	18.06%
Cameroon	147	191	300	109	57.07%
Cape Verde*	70	57	100	43	75.44%
CAR	108	96	165	69	71.88%
Chad*	207	191	250	59	30.89%
Comoros	--	29	50	21	72.41%
Congo	--	48	90	42	87.50%
Djibouti	126	96	150	54	56.25%
Eq. Guinea	71	57	130	73	128.07%
Gabon	125	144	150	6	4.17%
Gambia*	62	57	75	18	31.58%
Ghana	293	215	300	85	39.53%
Guinea	122	144	150	6	4.17%
Guinea-Bissau	4	48	75	27	56.25%
Ivory Coast	161	120	150	30	25.00%
Kenya	1,693	1,627	1,800	173	10.63%
Liberia	1,157	981	1,400	419	42.71%
Madagascar	55	72	75	3	4.17%
Malawi	218	191	300	109	57.07%
Mali *	156	144	150	6	4.17%
Mauritania*	77	48	75	27	56.25%
Niger *	214	239	275	36	15.06%
Nigeria	--	96	100	4	4.17%
Rwanda	62	57	75	18	31.58%
Sao Tome	--	43	50	7	16.28%
Senegal*	524	478	500	22	4.60%
Seychelles	17	48	60	12	25.00%
Sierra Leone	60	57	100	43	75.44%
Somalia	1,132	1,101	1,550	449	40.78%
Sudan	1,430	1,148	1,750	602	52.44%
Swaziland	50	48	60	12	25.00%
Tanzania	--	--	75	75	
Togo	43	72	75	3	4.17%
Uganda	6	96	200	104	108.33%
Zaire	1,341	1,292	1,600	308	23.84%
Zimbabwe	214	191	250	59	30.89%
Total	10,473	10,049	13,450	3,401	33.84%

Mr. **Obey**. I guess I do not understand the emphasis. It seems to me that the budget requests are warped in terms of the nature of the programs for which the Administration is suggesting funding. And I guess under the circumstances, I do not quite understand why they, at least in this man's view, are so warped in the direction that they seem to be?

Those are my concerns, now what are yours?

Secretary **Crocker**. Thank you, Mr. Chairman.

If I might, just very quickly, sum up the testimony we have submitted formally. I appreciate this chance to be here and to underscore the importance we attach to our assistance requests for Africa.

U.S. INTERESTS IN AFRICA

You have a lengthy statement from me and I will just very quickly touch the high points. We do have important interests in Africa, across the board—security interests, political interests, economic and humanitarian interests and they affect important U.S. national interests.

It is our desire to discourage subversion and across the border activities in that continent, fed by our adversaries, as well as other parties in the region itself.

Africa has about ⅓ of the UN's membership. It is an important block of nations on a whole series of international issues that affect our interests globally.

It is important to us for historical reasons—11 percent of our people trace their heritage to Africa. We have very strong economic and humanitarian interests in helping Africa get on its feet.

In your opening comments, you made reference to Africa's very difficult economic picture. In the broadest terms, I think we would share your concern, although I do not think that the picture is as quite as one-sidedly bleak as you painted it.

But it is obvious that Africans are living very close to the margins of subsistence in many countries, if not most countries of the continent. We feel that we have an important obligation to try to play our proper role in turning that around.

Our request for Fiscal Year 1987, which is about a billion dollars, is actually, in these tough budgetary times, a little bit below what we spent actually in 1985. It works out to about $2.50 per person in the region that we are talking about. It is not an amount that can be cut, we feel, and still have the impact we are trying to have on African policy reform, on disease and famine, and on the humanitarian crises that Africa faces

I would like to introduce into the record, and I will submit it separately, a brief summary of social indicators of Africans living there, to indicate in relative global terms, where Africa stands.

[The information follows:]

COMPARATIVE SOCIAL/ECONOMIC DATA

	Sub-Saharan Africa	All developing countries	Developed countries
Life expectancy (years)	49.6	58.9	74.9
Population per physician	21,124	5,706	554
Infant mortality (per thousand)	122	94	11
Protein supply per capita (grams per day)	53	59	99
Secondary school enrollment ratio	14.4	31.6	89.2
GNP per capita	220	650	10,440

EFFECT OF U.S. BUDGET RESTRICTIONS

Secretary **Crocker**. Because of budget pressures, we have had to increasingly concentrate our assistance with over half of it going to some nine countries where we have a wide variety of important interests concentrated. And even in some of those, given the budget environment we are living in, there have had to be some cuts.

I might say a word, just in summary, about our very important program in South Africa, where we are expanding innovative programs. And this, as you know, is not government-to-government assistance; it is rather assistance directly to community groups, private voluntary groups and individuals, seeking to support and expand black institution building in South Africa to support the disadvantaged generally. That program is on a steady financial footing. We hope that it has the support of Congress and we intend to continue with it.

EMPHASIS ON POLICY REFORM IN AFRICA

In addition, we have, consistently over the years of this Administration, placed a very strong emphasis on policy reform—on encouraging African governments to undo the damage of what I would call an entire generation of bad, or unfortunate, policy making—some of it encouraged, in the past, by the less than ideal policies of donors. It is our goal to try to stimulate economic growth by encouraging market oriented policies and we do see some reason to believe that that general approach is not only supported widely internationally, but is supported increasingly in Africa itself. And we have taken initiatives in this area, which we can expand upon in discussion time, to try to put our money where our mouth is, as concerns policy reform.

PURPOSE OF SECURITY ASSISTANCE

On the security assistance side, we believe that it is important for us to play our proper role. It is a modest role. In Fiscal Year 1987, our request for military assistance is a fraction over $200 million, which follows a sharp decline in military assistance in Fiscal Year 1986, because of our very severe budget pressures in this current year.

As an example of what can happen if we cut to the bone and below, we have seen, in the case of Sudan, an effort by Libya to exploit the uncertainties about our own military relationship with that country to gain a foothold for themselves. We have had to cut back in Kenya and Botswana—two very moderately oriented, well run countries, which face their own problems. We have been unable to continue a modest but useful program this Fiscal Year in the case of FMS for Cameroon. We want to restore that program. But Mr. Chairman, these budget pressures have really been very severe in Fiscal Year 1986 and we believe there comes to be a point where you really do pay a price from the security assistance side, if you cannot maintain some minimal level of credibility.

U.S. ROLE IN MULTILATERAL ASSISTANCE

Finally, I would like to mention that we have been seeking, and we have, in fact, exercised, considerable international leadership in the multi-lateral forum and with other donors, both at the conceptual level and in terms of resources.

You mentioned the Special Facility. I think that we would argue that our own economic policy reform program was a precusor to the Special Facility, and that many of the World Bank's ideas were drawn directly from our own ideas. We think that our parallel program run bi-laterally, is the way to go and it is having some useful effects.

Beyond that, we have helped to generate a lot of momentum behind those ideas. Apart from that, I would also point out the initiatives announced by Secretary Baker in Seoul at the recent annual meeting of the World Bank and Intermonetary Fund. We put forward ideas that would, in fact, channel additional resources to Sub-Saharan Africa, using principally the trust fund reflows of the IMF, but also, World Bank resources. This proposal is gaining international support and we think it is increasingly understood and supported in Africa, and by other key donors.

So, in summary, I think we feel that, despite our severe budget woes, which affect us all, we have a choice. We can try to ignore Africa, a region that has been very slow to get on its feet economically, and hope that its problems will go away, but it is our conviction that they will not. Or we can try to respond in relevant ways. We think we are playing our proper role. Our allies are playing a very significant part, taking a very significant share of the aid burden. But we cannot leave them alone. We have to be there with them, showing them a policy of leadership as well.

I think the U.S. taxpayer can look at what we have been trying to do these past few years, and see a fundamental sea change in the climate of African economic policy making that is, at least in part, a reflection of all the efforts we have made to try to get more and more consensus around a fundamental shift in economic policy in Africa. We see country after country where the right things are being said, and in many cases, the right things being done—to try to open up incentives, to try and encourage market oriented forces.

So that is the way our whole program is built. With those opening comments, I will leave it there. Thank you.

[The statement follows:]

STATEMENT OF HON. CHESTER A. CROCKER, ASSISTANT SECRETARY OF STATE FOR AFRICAN AFFAIRS

Mr. Chairman, I welcome the opportunity to testify today on the 1987 foreign assistance request for Africa. I believe it is important to be here because Africa is too often lost in the shuffle in light of higher profile interests elsewhere in the world. Yet, it is Africa, as I hope this Committee will agree, that poses some of the greatest challenges and opportunities for the United States.

Mr. Chairman, I recognize that in these days of budget cutting and deficit reductions we need to ensure that all USG assistance programs are based on solid U.S. foreign policy interests and objectives and that all programs have been scrutinized to consolidate and reduce costs wherever possible.

U.S. INTERESTS IN AFRICA

My presentation is in two parts—first, the nature of U.S. interests and, second, the programs proposed to support these interests. While these cannot and should not be rigidly separated, I would divide U.S. interests in Africa into the following broad categories—strategic and political, economic and developmental, and humanitarian. All of these interests share one common factor—the awareness that Africa is part of a broader global system.

Soviet/Libyan/Cuban adventurism operates in Africa just as it does in Afghanistan, Nicaragua and the Middle East. Africa's financial problems are part of a broader global framework and failure to deal with them endangers the multilateral system crucial to our global interests. For example, while African debt is dwarfed by that of Latin America, the country with the largest arrears to the IMF is Sudan; and debt, in relationship to size and potential of economies, is far more serious in Africa than elsewhere. By the same token, Africa's level of socio-economic development is much lower than that of other regions. African countries do not have the same ability to adjust to changing international economic developments that other regions, such as Latin America and Asia, have. For this reason, I think Africa needs to be recognized both for its importance to our world interests.

DEVELOPMENT ASSISTANCE

In development terms, what is occurring in Africa today, after a long period of stagnation and misdirection, is positive and encouraging. As I will describe in somewhat greater detail later, Africans have taken initiatives, risky initiatives, in terms of policy changes which deserve our support. Africans are not asking for a handout, nor do we propose to give them one. They are not arguing that their debt be repudiated. They are asking for support in developing institutions which will permit their economies to grow, with benefit to Africans and non-Africans. If we and our allies respond, we can head off far worse problems in the future.

Our request for Africa is not extravagant in this context. Our total request for development and security assistance to Africa comes to $2.50 per African. This is not an amount that can be cut substantially and still have the effect on poverty, disease, and dislocation that is desired. Some prominent elements in the U.S., most notably the recent report of the Council on Foreign Relations and the Overseas Development Council, have urged that we do much, much more in Africa. But we are very much aware of budget constraints and have shaped our proposals in the context of what we believe is our proper share of our international effort, both bilateral and multilateral.

PURPOSE OF SECURITY ASSISTANCE

We have important security interests in Africa. Africa is relevant in strategic terms to the shipping lanes from the Middle East, the security of the Indian Ocean, and the transit across the south Atlantic. Africa is also near the critically important southern flank of Europe and vulnerable oil producing areas in Saudi Arabia and the Gulf. Africans are active participants in the security of these regions, for their own safety and development.

We have an interest in seeing the continent free from outside subversive influence and aggression, or its use as a base for anti-Western propaganda and activities. Most African leaders share our perceptions about the dangers to the continent offered by Soviet, Cuban and Libyan involvement and our view that disputes should be settled by peaceful negotiation—not armed force. We have not hesitated to provide military assistance to our friends when threatened by external aggression, as we did in the case of Libyan incursions against Chad. Our Allies in Europe have reacted strongly as well. We ignore at our peril the intrusion of hostile external influence and power into this fragile and often unstable zone.

AFRICA AND THE U.N.

With about one-third of the membership in the U.N., African nations are the most cohesive voting bloc at the United Nations and in other international fora. They play a critically important role in determining UN positions on political, economic, and technical issues, such as policy in the Middle East, on terrorism, and human rights. Just to give one example, African countries resisted consistently efforts to challenge Israel's right to participate in the UN.

Africa's markets and our access to its rich mineral resources are important concerns to American industry and commerce. We depend heavily on Africa for the supply of such critical minerals as chrome and cobalt.

Africa is important to us in cultural and historical terms. About eleven percent of the American people trace their ancestry back to Africa. Afro-Americans are today a more cohesive and activist constituency than at any time in the past, not only on the emotionally charged issue of South Africa, but also on the range of America's Africa interests and policies.

U.S. HUMANITARIAN INTERESTS

And finally, we have a strong humanitarian interest in helping our fellow man meet basic human needs and realize his potential. Last year, Africa experienced one of its worst droughts in modern history, with over 30 million people at risk. We can be proud of the U.S. role in providing unprecedented levels of food and other types of emergency assistance. Millions of lives were saved. With the return of rains to much of Africa, the specter of famine is receding but much still remains to be done to reduce deprivation and suffering. Equally important, we must ensure that Africans living on the narrow margins of subsistence have the realistic hope that life for their children tomorrow will provide more opportunities and economic security than there is today.

CURRENT AFRICAN ECONOMIC SITUATION

Africa is at a crossroads in economic development. Drought, sharply changing terms of trade and perhaps, above all, misdirected policies have brought Africa to a point where it has regressed to the per capita income of 1960. The seriousness of this crisis, however, has produced a major shift in African thinking. Indeed, among Africans and donors alike, there is a consensus on dramatic steps that must be taken by African governments and the nature of international support. If these steps are not taken, the situation will worsen with terrible human as well as, unquestionably, political consequences. But the key is that this crisis is recognized and African leaders are taking actions of unprecedented nature to meet it.

AFRICAN EFFORTS TO IMPROVE SITUATION

What are African countries doing to help themselves?

Much of the reform taking place reflects a move away from bankrupt statist policies dating back to the early years following independence. At that time, many African leaders were attracted by socialist solutions which held out the promise of more rapid economic growth while at the same time promoting a more equitable distribution of income. Even countries that did not profess socialism were inclined toward a large state role in production, marketing, distribution, and finance. This path clearly has been a disappointment. Rather than a high rate of economic growth, it has promoted rapid growth of government and state enterprises at the expense of the fragile but productive private sector. Bureaucracies have swollen beyond the economy's ability to support them, creating incentives for corruption and distortions in the allocation of benefits. Subsidies were introduced that increased deficits as well as dependence on imports.

Many African countries are now aware of their past mistakes and are proceeding to pare down their government bureaucracies and remove controls which are preventing the economy from operating efficiently. I will give you briefly specific examples of important reform efforts by selected African countries:

SPECIFIC EXAMPLES: ZAIRE'S REFORMS

Zaire's policy adjustments are among the most thorough in support of market-led development. The local currency, the zaire, has been devalued sharply and allowed to float in a free foreign exchange market. Import licensing has been liberalized and payment restrictions eased. Virtually all state trading monopolies have been abolished and price controls eliminated. Questionable trading practices in the mineral sector that allowed for hidden capital flight have been abolished under World Bank direction. Interest rates have been freed and floated to rates that are positive in real terms. Finally, public expenditures were cut back sharply. As a result of these measures, inflation has dropped to an annual rate of 20 percent after running at over 100 percent in 1983; exports have increased, and the trade surplus has doubled despite a continuing decline in copper prices. Growth has also recovered, rising to a 2.8 percent real rate in 1984. However, despite these positive results, debt service remains a tremendous problem for Zaire, consuming about half of the government's budget.

SPECIFIC EXAMPLE: ZAMBIA'S REFORMS

In Zambia, the government has recently introduced a series of fundamental economic policy changes. It has established an auction system for foreign exchange; liberalized its foreign trade regime, ended all import licensing and other quantitative restrictions; decontrolled interest rates; and established a daily auction in Treasury bills to help meet its domestic credit needs from sources outside the banking system. No less significantly, the government has also continued to push ahead with sectoral reform programs, increasing and/or decontrolling producer and retail prices for agricultural products, restructuring tariffs, and developing an action program for the rationalization of the mining industry.

SPECIFIC EXAMPLE: SOMALIA'S REFORMS

Similarly, Somalia in 1985 embarked upon one of the more sweeping reform programs in Africa. Prices were entirely decontrolled; import licensing was abolished; all restrictions on internal grain marketing were eliminated; and a dual foreign exchange market (with a freely floating exchange rate for most commercial transactions) was developed as a first step toward a unified free foreign exchange market. Real public expenditures were also cut back sharply. Together, these measures had an immediate impact on prices, production and exports. Inflation settled to a rate less than half 1984's—about 30-35 percent; foodgrain production rose to record levels; exports almost doubled, and overall GDP growth strengthened to a 4 percent real rate for the year.

SPECIFIC EXAMPLE: GUINEA'S REFORMS

After 26 years of economic mismanagement, the new government of Guinea, under the leadership of President Conte, launched a sweeping economic reform program in the fall of 1985 aimed at implementing IMF and World Bank recommendations and putting the Guinean economy on a private sector footing. Guinea devalued its currency by 1,500 percent and instituted a foreign exchange auction system as a step toward market determined rates; the state banking sector was liquidated and its functions are being handled by three Franco-Guinean banks; the prices of basic commodities are being decontrolled to stimulate increased supply; the import and retailing of rice was privatized; state enterprises were dismantled or privatized; and targets were set for deep cuts in civil servant staffing.

DONOR ROLE IN ECONOMIC REFORMS

What should the donor community do to support such important economic reforms?

In its recent report "Financing Adjustment with Growth in Sub-Saharan Africa 1986-1990," the World Bank presents a sobering view. In the introduction to the report. World Bank President Clausen notes that the "development strategies of many African countries have changed dramatically," that "major structural reforms are being undertaken," and that "there has been marked progress by many African countries in redressing major macro-economic and sectoral distortions." He adds, however, that "the major structural reforms undertaken by many African countries to address their long-term development problems have not received adequate donor support."

The Bank believes that, in order to achieve sustained and sound growth, approximately $2.5 billion in additional assistance is required. Some of this can come from an enlarged IDA VIII but the remainder must come from bilaterial support. I am not arguing for a gap closing exercise for all of Africa. For better or for worse, this is not sustainable in the U.S. or most other countries. What is needed is a combination of donor concentration of assistance on programs to produce results in those countries in Africa seriously engaged in adjustment and to provide incentives for the future to other countries that must eventually take this path.

I, and my AID colleagues, believe in this and the proposals which are before you reflect this approach. U.S. bilateral assistance is perhaps one eighth of total assistance flows to Africa. Yet our relatively small share of assistance is crucial to broader patterns of assistance. We are proud to be considered the leader and innovator in African development. This is a role we wish to maintain.

AID PRIORITIES IN AFRICA

Accepting the reality that we do not have the resources to do everything that we would like to do, we have evaluated our priorities carefully to focus our assistance. Our request for economic assistance for Africa in FY 1987, at about one billion dollars is about ten percent below actual expenditures in 1985. Over half of our assistance is concentrated in nine countries: Cameroon, Kenya, Liberia, Niger, Senegal, Somalia, Sudan, Zambia, and Zaire. In terms of programming our economic assistance, about 43 percent of our resources goes to assist economic stabilization and reform efforts; 35 percent to promote increased agricultural productivity which is made possible by such reforms; and 22 percent for human resources development. Development assistance, economic support funds, and PL–480 food assistance each provide roughly a third of the resources for our bilateral programs. While some of these resources may help meet short-term needs, our major objective is to increase the long term productivity of the countries we are helping.

Economic and institutional reform will continue to be the centerpiece of our development strategy. Under our regular assistance programs in Africa, we have been providing increased balance of payments assistance and conditioning it on economic structural reforms (e.g. trade liberalization, agricultural market liberalization, civil service reform) to create a favorable framework for medium and long term growth. This is precisely in line with recommendations of the World Bank to bilateral donors.

AFRICAN ECONOMIC POLICY REFORM PROGRAM (AEPRP)

In FY 1985, we began implementing a new program, the African Economic Policy Reform Program (AEPRP), which provides additional, more flexible assistance to African countries undertaking critical policy reforms and for whom additional, timely resources would accelerate the pact of such reforms and ensure implementation at the sector level. The first year was a success. We selected five countries for a total program of $75 million and negotiated reforms which included: reduction of fertilizer subsidies in Malawi; pruning of the civil service payroll in Mali; lowering of tariffs and marginal personal tax rates in Mauritius; liberalization of price controls in Rwanda; and eliminatoin of subsidies on maize and fertilizer in Zambia. Due to budget restraints, funding for the AEPRP in 1986 was reduced to $47.9 million. We hope Congress will provide us the resources so that we bring this important, effective program back up to the $75 million level in 1987.

The AEPRP was a precursor of and gave impetus to a similar program, the World Bank's Special African Facility—a facility which, together with bilateral funds available for con-financing, totalled about $1.3 billion to finance policy reform programs in Africa. The Facility has done useful work and we have been coordinating our AEPRP programs with the World Bank and, in FY 1986, at the initiative of Congress, made a direct contribution to the Special Fund.

FOOD FOR PROGRESS

This year, we will begin implementing "Food for Progress", using an initial allocation of 75,000 tons of food to support several pilot programs. Food for Progress is designed to support market-oriented reforms in the agricultural sector with a view toward increasing a country's productive capacity. Benefitting from the experience of the first programs, we plan to expand it in 1987 and are hopeful that, like the AEPRP, it will also make a significant contribution to the structural reform efforts of African countries.

BAKER PROPOSAL: IMF TRUST FUND

Lastly, I would like to mention briefly our efforts to mobilize additional multilateral support for Africa. Last October, at the IMF/IBRD annual meeting in Seoul, we tabled a proposal on the use of IMF Trust Fund reflows in conjunction with World Bank resources and possibly bilateral contributions. The proposal would promote greater consistency and coordination of efforts of all parties involved in the implementation of structural adjustment programs in the beneficiary countries. The IMF and World Bank would develop a comprehensive economic framework and then each institution would negotiate its own policy-based lending programs consistent with the overall framework.

At the February 11 meeting of the IMF Executive Board, the Trust Fund proposal was endorsed. The initiative was also considered at the March 17 World Bank Board—but we do not yet know the results. Nonetheless, we are fairly confident that the initiative will go forward and expect that it will make an important contribution toward helping close the resource gap for Africa identified by the World Bank. The Trust Fund part of the U.S. proposal alone would provide substantial increased concessional assistance for the poorest countries with protracted balance of payments problems. During the first round of distributions of the IMF Trust Fund, only 27 percent went to African countries. This time we would expect more than triple that percentage to go to Africa.

This, in sum, is what we propose on the economic side.

SECURITY ASSISTANCE—OVERVIEW

Mr. Chairman, this year as in previous years, our request for military assistance is based upon our strategic interests in Africa and on the philosophy that the armed forces of Africa are an important power factor in their individual countries. We believe that these military organizations can be either stabilizing or destabilizing forces and that we must stay involved in terms of providing justifiable assistance to key countries. If we do not play in the game, we will have no influence over the outcome. We have a stake in supporting moderate, friendly states, and an interest in moving countries that have been part of the Soviet order into a more fully nonaligned position.

In FY-87, as in the past, our request for economic assistance outweighs our request for military assistance by a factor of five to one. Our request for military assistance for FY-87 is reduced from our FY-86 request by 9 percent. The request for FY-86 was $220 million but because of severe budget reductions we were able to allocate only $111.5 million. The request for FY87 is $201.5 million: $174.1 million MAP; $14 million FMS Credit; $13 million IMET.

The reductions that we were required to take in military assistance in FY-86 were very costly in terms of U.S. interests. In Sudan, the reductions were so severe as to give rise to questions about our seriousness in a country of vital strategic importance to Egypt and Kenya, and which is gripped with an internal insurgency fueled by Ethiopian arms. In Kenya, we cut back on planned support to one of our staunchest friend in the region, indeed in the Third World. In Botswana, just as that country faced greater tension on its borders and more than ever was determined to defend itself from both other countries and armed movements that would misuse its territory, we had to cut our program nearly in half. In Cameroon, which has kept its borders clear of trouble from Chad or elsewhere, we had to eliminate the program altogether, even though it is one of the best managed programs in Africa. These are costly steps. These reductions, often drastic, raise the most basic questions in the minds of important regional partners about our readiness to help victims of Libyan encroachment or other cross-border raids. These countries have stoop up continuously in favor of positions we have supported in international and regional matters and expected not large, but timely and consistent help from us. If we continue this pattern of reductions in future years, we will have opened the door to more trouble in Africa than is readily understood. In Sudan, Libya is today actively exploiting the uncertainties about our military relationship with that country to gain a foothold in military matters. And unlike our role, which was to concentrate on border defense and urge strongly a negotiated settlement of the internal uprising, Libya will not adhere to such principles.

Our request for military assistance in FY 1987 is concentrated in 5 countries: Sudan, Kenya, Somalia, Chad, and Zaire. Kenya, Sudan and Somalia figure directly and prominently in the U.S. Southwest Asia strategy. These countries support U.S. political and military objectives in the region and provide U.S. forces with access to and through their countries.

COUNTRY SECURITY ASSISTANCE PROGRAMS: CHAD

Chad is under siege from Libya. Libyan forces occupy the northern third of the country. The French have the major responsibility for helping Chad defend itself, but the U.S. plays an important supporting role as France cannot manage the entire burden alone. U.S. bilateral support for Chad also demonstrates our resolve to help African nations counter Libyan aggression and adventurism.

SECURITY ASSISTANCE: ZAIRE

Zaire continues to be a staunch supporter of U.S. policies in Africa, including the containment of Libyan aggression, as shown by President Mobutu's 1983 decision to send troops to Chad to counter earlier intervension by Libyan and rebel troops. Zaire has a military that has an enormous mission and requires outside assistance from a number of supporters, especially in the airlift and logistics areas.

SECURITY ASSISTANCE: LIBERIA

Our other major military assistance goes to Liberia and Botswana, and to a regional Civil Action program. We are well aware of the congressional concerns about military assistance to Liberia, but we cannot walk away from that country's military establishment. We reduced our 1986 allocation to $5 million and we are requesting $8 million less assistance in 1987 than in 1985. While we take very seriously the Senate and House resolutions concerning military and ESF assistance, we believe it is vital to stay involved with the rank and file military in Liberia. The military did not impede the progress of return to constitutional rule nor did it serve as an instrument to interfere with the recent elections. This military is a prime example of where a properly trained force can be a stabilizing influence and an untrained, undisciplined force can be a recipe for future unrest and chaos. We cannot abandon our commitment completely or precipitiously.

SECURITY ASSISTANCE: BOTSWANA

In Botswana we have a commitment to assist the Defense Force with training and equipment that will increase its border defense capabilities. Botswana must remain both economically and militarily stable in this critical and potentially unstable area of Africa.

AFRICA CIVIL ACTION PROGRAM

The Africa Civil Action program, although only in its second year, has already paid dividends. In 1985 and 1986 we have been able to identify small projects in Mali, Niger, Malawi, Senegal, Ivory Coast and Rwanda, and we are working on coastal security programs with Senegal, Guinea, Sierra Leone, and Mauritania. We are getting a lot of mileage out of the Civil Action program for a very small investment.

MAP: CENTRAL AFRICAN REPUBLIC'S NEW PROGRAM

There is one new program identified in the 1987 request: a $1 million MPA program for the Central African Republic. The CAR has been very supportive of U.S. and French policies in the region and has acted quickly to deter Libyan adventurism in not only the CAR, but in sothern Chad as well. The French provide the majority of the military assistance required by the Central Africans, but as in Chad, they cannot supply all of the legitimate requirements. We intend to provide trucks for key mobile infantry units to help them increase their effectiveness in protecting their borders.

NECESSITY FOR CURRENT SECURITY ASSISTANCE LEVELS

Mr. Chairman, in this era of reduced resources available for military assistance, we have carefully examined each of our programs and have consolidated a number of projects in each country. I would like to point out that we have maintained a remarkably consistent military assistance request over the years. Since 1982 the total request for military assistance each year has been approximately $200 million. Because of the shortfall in 1986, we consolidated some programs and projects and deferred others. We plan to do the same in 1987. However, there is a level below which we should not fall; a level below which our assistance would not make sense or be effective. There are those who would argue that we should curtail military assistance to African countries. We cannot and should not do that. We would run the risks I outlined above—the risks of losing the influence that we have and of actually adding to instability rather than stability.

U.S. NOT "MILITARIZING" AFRICA

I would like to take a moment at this point to set the record straight on a commonly expressed misconception of US military assistance to Africa. This Administration has been accused of trying to militarize Africa, of emphasizing military assistance over economic assistance. That is simply not the case.

When we do respond to requests for military assistance it is in the area of training, logistics, supply, communications, engineering, and most recently in the area of civic action. However, when friends and allies are threatened or invaded, as in the case of Chad, we have responded with lethal, primarily defensive, equipment. We believe that this is the correct response and we will continue to follow this pattern.

The Congress and the public are not aware of the number of requests for military assistance that we deflect. We consult closely with African nations when they ask us for military assistance and more often than not we conclude that their situation does not warrant a military supply relationship with the US. In these cases we have established training programs which have proven to serve better the needs of African militaries than expensive, hard to maintain, equipment programs. Out of all the nations in sub-Saharan Africa we have military equipment assistance programs in only 14. These fourteen fall into very select categories; they are either key actors in US national security strategy or they are threatened by external aggression. There are a few countries which fall into both categories. By contrast we have training programs with 44 nations. I believe that the record demonstrates where we place our priorities.

I want to emphasize the point that there are indeed African nations that are threatened by aggression and internal instability, that this instability works directly contrary to US interests, and that the US will respond to help our friends. Deterioration in the security situations in Chad, in Sudan, in Somalia, and in southern Africa will impact seriously upon U.S. interests in those key regions in Africa. We are not requesting military assistance because we are "nice guys." We receive valuable benefits in return for our investment. We are pursuing objectives that are part of U.S. national strategic policy.

I will now review regional highlights:

REGIONAL HIGHLIGHTS: SOUTHERN AFRICA

We are engaged in a major diplomatic effort in southern Africa to decrease the level of violence and establish a more stable basis for regional security and to end apartheid and establish a more just system, based on the consent of all the governed. These objectives are inter-related. As long as the level of cross-border violence and the perception of threat remain high, it will be difficult to generate among white South Africans the political will necessary to adopt real reforms. On the other hand, there is no question that for as long as it exists, apartheid will be the principal source of conflict and instability in the region, creating opportunities for outside intervention.

We have seen some progress toward these objectives. Our goal of diplomatic resolution of conflict and of economic development is gaining support as opposed to an orientation toward armed conflict which favors only our adversaries. The Nkomati accord between South Africa and Mozambique has decreased the level of cross-border violence. Our efforts to achieve Namibian independence on the basis of UN Resolution 435 has made important progress. We now have concrete proposals on the table from both Angola and South Africa, including a date of August 1, 1986 for implementation of U.N. Resolution 435 for Namibian independence, if there is a satisfactory agreement on Cuban troop withdrawal.

These achievements are fragile and incomplete. Much more remains to be done. The area has vast development potential, but this potential can never be achieved as long as the problems of racism, war, economic disruption and foreign intervention persist. Our assistance programs have been greatly expanded and are designed to achieve greater regional security, economic development, peaceful change and further reform in South Africa. They are tangible demonstrations that we, and not our adversaries, have the capacity and willingness to help the countries in the region achieve peace and better the lives of their people.

REGIONAL HIGHLIGHTS: SADCC

We strongly endorse and support the objectives of the Southern African Development Coordination Conference (SADCC) which seeks to coordinate development projects of the nine majority-ruled governments in Southern Africa. AID provides direct technical and financial support to the SADCC Secretariat and works with SADCC in various areas, including agricultural research, manpower development, food security and transportation.

REGIONAL HIGHLIGHTS: ZAMBIA

In Zambia, the Kaunda Government, supported by the IMF and World Bank, remains committed to a difficult program of economic reform. Zambia has begun a series of fundamental changes in its basic economic policies which our aid programs are helping to sustain. Zambia's economy remains fragile and needs substantial outside assistance to cushion the effects of its reform program.

REGIONAL HIGHLIGHTS: MALAWI

Due principally to sensible agricultural policies, Malawi has largely been able to feed its population. However, the insurgencies in neighboring countries, particularly Mozambique, have made Malawi's ability to import or export commodities extremely costly. The country remains extremely poor and it warrants our support as it undertakes new initiatives to diversify and strengthen its economy.

REGIONAL HIGHLIGHTS: ZIMBABWE

Our aid is helping Zimbabwe to stay on a sound economic footing. Our efforts are focused on the private sector, where an invaluable Commodity Import Program has alleviated foreign exchange limitations that otherwise would have stalled industrial and commercial recovery. The private agricultural sector naturally suffered under the region's severe drought, but all things considered, coped fairly well and, with improved weather this year, has had major increases in production.

REGIONAL HIGHLIGHTS: MOZAMBIQUE

Mozambique continues to make major desirable changes in its orientation and we have responded by developing diplomatic relationships and economic assistance programs intended to show our support for the change. I have already mentioned the Nkomati Accord, a key move away from armed confrontration. Mozambique has since then moved toward greater participation in the Western economic system. It has joined the IMF and World Bank, adhered to the Lome Convention, signed an OPIC agreement and a Paris Club rescheduling. Several American firms are initiating important investments in the country's agricultural, fishing, and minerals sectors. It was one of the most drought-affected countries in the region and we responded with large-scale emergency food assistance. Our assistance programs demonstrate tangibly our support for the Machel regime and the reforms it has undertaken; however, Congressional restrictions on our aid to Mozambique have caused significant reduction in this assistance. Our support is particularly timely, since the Mozambique Government's turn away from heavy reliance on the Soviet Union is being called into question by continued anti-government violence committed by Renamo, a movement initially created by Ian Smith's Rhodesia, nurtured prior to the Nkomati Accord by the South African Government, and still supported by non-African elements such as the Portuguese.

REGIONAL HIGHLIGHTS: SOUTH AFRICA

Our assistance program within South Africa is one of the pillars of our policy towards that country. It is not government-to-government and it demonstrates clearly that our policy is not limited to a narrow range of issues not to dialogue with the South African Government alone. It also encourages individuals and groups striving for peaceful change in South Africa.

The proposed U.S. aid program for South Africa in FY-1987 is $25 million, of which $15 million is budgeted in the Southern Africa Regional Program (DA and ESF) and $10 million would come from a special ESF allocation for South Africa. Working with regional organizations, private voluntary organizations, local community groups and individuals, our assistance program is aimed at improving community support structures, private enterprise, and educational and training opportunities for disadvantaged South Africans. Its basic goal is to assure that strong and responsible leadership is available to assume increasingly greater positions of responsibility and authority in both the public and private sectors. We have a major human rights program to assist in legal defense work and improving the responsiveness of legal institutions in South Africa.

Southern Africa is of substantial strategic and economic importance to the United States. We are engaged there in a continuing major diplomatic effort to bring about the independence of Namibia under UNSC Resolution 435, and a situation of peace among countries suffering from cycles of violence. We have seen progress toward these objectives and in our relationships with all the countries of the region, but we have still major efforts ahead of us.

The area has vast development potential, but this potential can never be achieved as long as the problems of war, economic disruption, racism, and foreign intervention persist. Our policy in the region is designed to address these problems through enhanced regional security, economic development, peaceful change and a movement in South Africa away from apartheid and toward a system of governance based on the consent of all the governed. Our assistance programs are targeted at achieving these goals and allowing the area to resolve its difficulties and develop without outside interference, especially from Soviet bloc nations.

REGIONAL HIGHLIGHTS: CENTRAL AFRICA

The U.S. has a major policy stake in ensuring an independent Chad in the face of continuing Libyan aggression. Libya occupies the northern 40 percent of Chad and is currently supporting attacks by dissident forces. Our security assistance support for Chad is designed to complement the efforts of France, which has the primary role in assisting with Chad's security. Because of its shattered economic base, caused by the ravages of war and drought, Chad needs fast disbursing ESF to restore basic civilian services and development activity as well as MAP to strengthen its capabilities to resist continuing Libyan aggression and subversion.

REGIONAL HIGHLIGHTS: ZAIRE

Zaire, a country of crucial strategic importance in Africa, has been a firm friend and supporter of U.S. policies. It contributes substantially to stability in central Africa. For example, it helped the Chadian Government by sending troops to Chad to permit that country to defend itself against the Libyan invasion in 1983 and it provides training in Zaire to Chadian troops. In addition, Zaire has pursued constructive policies on issues outside of Africa. Zaire has close ties with Israel, with which it reestablished diplomatic relations in 1982. A neighbor of conflict-ridden Angola, Zaire is equally a critical country in the search for peaceful resolution of southern African conflicts. Zaire's military has long been underfunded and our MAP program is designed to get Zaire programs back on their feet, particularly in the key airlift area. The importance of this program was demonstrated November 1984 when Zairian forces were airlifted in a U.S.-provided C-130 to recapture a town in eastern Zaire that had been seized by anti-government rebels coming across the border. An lastly, as outlined earlier, Zaire has taken major steps to reform its economy which we need to continue to support.

REGIONAL HIGHLIGHTS: CAMEROON

Cameroon is a country where we want to build on success. Cameroon's policies, including emphasis on the private sector and active encouragement of foreign investment, have been conducive to sound development programs. With $21.89 million in assistance proposed in FY-87, our economic aid emphasis is on increased production in food crops and market participation and income of small farmers. Our security assistance seeks to improve the mobility and efficiency of its modest defense forces.

REGIONAL HIGHLIGHTS: EAST AFRICA

A number of countries, including Kenya, Sudan, Somalia, Mauritius and Madagascar have undertaken tight, much neded economic adjustment programs to establish a stronger basis for self-sustaining growth. Two countries, Somalia and Madagascar, are in the process of correcting earlier severe economic distortions. Early this year, for example, the IMF approved a standby agreement and additional funding to compensate for lost export earnings—critical financial assistance in support of major economic reforms undertaken by the Somali Government. Our aid programs focus in several cases on quick disbursing ESF grants which enable importation of needed inputs to agriculture and commerce and provide the catalysts for financial assistance from other donors as well as assistance complementary to that from international organizations such as the IMF and World Bank.

REGIONAL HIGHLIGHTS: SUDAN

Our economic assistance is vitally important to Sudan as its government undertakes a return to democracy for the first time in 17 years, seeks constructive solutions to the country's desperate economic problems, and maintains a liberal policy toward refugees.

The U.S. has in the past played a leading role in an extraordinary international effort which has mobilized resources to enable Sudan to meet recurring payments for imports essential to development and other obligations. Through quick disbursing CIP funds and, when necessary, cash grants, we have helped Sudan manage its economic resources within an international framework. These programs broke down under the growing political instability and civil strife in the final months of the Nimeiri regime. They will be rebuilt only painstakingly as the country works first to restore democracy through elections in April. We have re-assured the Sudanese of our intent to support this process. We have also indicated our readiness to work with the newly elected government in addressing the most urgent economic problems. Meanwhile, there is on-going need to restore infrasture badly damaged during the drought and to help support economic activity in the agricultural sector through the election period. At the same time, we have begun quiet informal consultations with other significant donors so that the donor community can move quickly and in a coordinated way to meet Sudan's urgent needs. While many basic decisions must await elections, our economic assistance constitutes a principal base for Sudanese recovery.

I have noted earlier the importance of our continuing to have a military assistance relationship with Sudan. Sudan continues to be threatened by subversion at home and abroad. The security problem on two borders—Libya and Ethiopia—exacerbates the internal political tasks of Sudan. We have made clear that our military assistance is not for pursuit of a military solution to problems in the south. The interim government has, indeed, taken several initiatives to seek political reconciliation. We expect these initiatives to intensify after elections install a permanent government this April. However, Ethiopian support of the southern insurgency appears to be a serious obstacle to negotiations, as Ethiopia seeks to exploit this situation for its own ends. While strongly urging a negotiated settlement of the southern problem, we are not disposed to see Ethiopia use the situation to help spread Soviet influence in the region.

REGIONAL HIGHLIGHTS: SOMALIA

Our security assistance in 1986 is vital for Somalia to control its borders and manage its own destiny. Somalia is still engaged in a residual border conflict with Ethiopia. Ethiopian troops still occupy two Somali villages. Ethiopian backed insurgents in the north periodically engage in border harassments. We and our allies continue meanwhile to encourage, through every diplomatic way possible, a lessening of tensions in the region and a process for overcoming border and other divisive issues. The careful balance of our assistance to Somalia over the past several years, giving Somalia defensive capability but not supporting actions against Ethiopian territory, contributed to the atmosphere in which Ethiopia's Mingistu and Somalia's Siad recently met for the first time to find a peaceful solution to their long-standing disputes.

REGIONAL HIGHLIGHTS: KENYA

Kenya is successfully coping ith the economic conditions that brought so many other African countries down. Kenya has taken tough measures to limit its critical balance of payments and foreign exchange deficits through devaluation, import reductions and budget cuts. Kenya moved quickly to get food into the country when the drought struct and its performance stands in sharp contrast to that of Ethiopia. Assistance from the IBRD, the IMF and the world donor community in support of Kenya's short and long term reform efforts has given Kenya the external help necessary to make its domestic adjustments. This is a success story that we must not abandon. Continued help will now focus on a major opening of the private sector in agriculture, exports, and social development so that Kenya can keep up with the pressing problems of population growth, unemployment and poverty.

REGIONAL HIGHLIGHTS: WEST AFRICA

While the American presence and aid levels in the sixteen countries of West Africa generally are not large, they are nonetheless significant. In drought affected countries such as Niger and Mali our emergency assistance has proven crucial. Dealing with acute food deficits is both a short-term humanitarian problem and a longer-term developmental objective.

REGIONAL HIGHLIGHTS: SENEGAL

In Senegal, our programs are designed to bolster a friendly democratic government and one which is a leader in economic restructuring. In addition to providing Senegal the largest amount of U.S. development assistance in francophone Africa, we are uging ESF to enable the Senegalese continue to pursue more rapidly significant economic policy reforms, such as in agricultural marketing. Our assistance programs are being coordinated with France, Senegal's largest donor, and with the international financial institutions. We also seek to continue a modest but highly valued $4.5 million MAP program in FY-87 to augment Senegal's capability to resist Libyan subversion; our highly successful IMET program trains about thirty officers of Senegal's apolitical, professional armed.

REGIONAL HIGHLIGHTS: LIBERIA

Liberia held national elections in October 1985 and returned to civilian constitutional rule on schedule in January 1986. But the process was marred by disputes over the election results and by a coup attempt and its aftermath a month later. Steps have been taken by government and some opposition leaders to promote national reconciliation within the framework of the new democratic constitution and institutions of elected government. Much more needs to be done. Our continued assistance program will, in our view contribute to the prospects for national reconciliation, political stability, and human rights in Liberia. We have sent strong messages on all these matters this year and at the same time have applauded the recent release of prominent political detainees, the opening of trials to outside observers, and removal of some of the press restrictions from last year. We shall keep those matters very much in mind, as well as the Liberian Government's actions to address seriously its economic problems, as we disburse assistance funds throughout the year.

Mr. OBEY. Anybody else?

Mr. EDELMAN. I would just make a few comments, Mr. Chairman. Most of my comments are in my prepared statement.

U.S. ROLE IN AFRICAN DEVELOPMENT

The main point I would like to make, as expressed in my statement here, is that the U.S. cannot solve Africa's development problems.

We have been the lead donor for innovation and change in Africa. I think we will continue to be—I hope we can still continue to have a leadership role. The primary responsibility for Africa's development, though, rests with Africans themselves.

Until recently, I think the donors have made a lot of mistakes, and I think the Africans themselves have made even more mistakes than the donors have, but things are changing in Africa.

The new Bank report points that out. I can just cite evidence, after evidence, after evidence, some of which is in Dr. Crocker's testimony and some of which is in mine, that Africans are changing—how they view development, how they view their own economies, how they view their own responsibilities.

And that is a reason to be heartened by what is happening in Africa today and a reason for hope. I do not deny the gloomy pictures that you have depicted as you led off your statement, but there is a reason for hope.

And as you and I chatted about a month ago on the grim budget outlook—we are quite well aware of it—if it means the drastic kinds of reductions that you have been talking about, that is what has to happen. It means the U.S. will not maintain a leadership role there.

But more important even than giving up the leadership role, it means that we will back away from Africa at a time when the Africans themselves are finally taking the very difficult political decisions to change their economic course. These are not as difficult economically as they are politically. There are some governments out there that are playing very high-risk ball indeed by getting rid of their parastatals, by all kinds of economic reforms. Fat cats are being gored right and left, in country after country, as governments get out of the economy and turn it over to the free-market system.

It would be tragic if, at this time, when they need our support and when they are looking for our support and they are doing what we, at least for the last five years, have been telling them to do, that we back away from them. I think Africa will indeed collapse, and I would almost say, will implode upon itself, with no leadership at all.

That is all that I would like to say, Mr. Chairman.

Mr. OBEY. Thank you.

[The statement follows:]

STATEMENT OF
THE HONORABLE MARK L. EDELMAN
ASSISTANT ADMINISTRATOR FOR AFRICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, Members of the Subcommittee.

It has become apparent in Africa that it will take more than wishful thinking and fiscal resources to hasten the pace of development. We have, over the years, told you about policy reform, agricultural developments, and improvements in social services. It has all helped, but with the exception of a few countries, development progress has slowed in Sub-Saharan Africa.

The U.S. cannot solve Africa's development problems. Although we have been the lead donor promoting innovation and change in development strategies, fundamental responsibility for Africa's. development should and must rest with Africans themselves. We can provide financial and moral support for their efforts, help develop new technology and offer guidance, but even our contribution is a minor part of the total bilateral development resources available (about 14% of all official development assistance) and the overall development process. Most important for successful development is the question of African leaders' motivation and will. It cannot be borrowed or bought or sold to the highest bidder. It must come from the heart of Africa and its people.

I am not going to tell you that we have the answer to the African development quandary. Nor am I going to say that everything we are doing will be successful - although we can be proud of our record to date. But I would like to share a few of my recent observations with you.

There are two important things that have happened during the past year.

The Drought: For the past two and one half years, Sub-Saharan Africa has undergone a severe drought without the anticipated massive loss of life. This holds true not only for the Sahelean countries where crop shortages continued into a third and fourth year, but also in nations torn by civil strife. In Ethiopia, where donors received little cooperation from the government, the drought's toll, although high, was nowhere near the projections from on-the-ground observers. The donor community made an unprecedented humanitarian food aid contribution. We can all be proud of that effort. However, I think it is particularly significant that the important traditional, failsafe drought mechanisms of the rural populations worked once again.

The Recovery: The second notable occurrence over the past year has been the startling post-drought recovery that has begun throughout much of Africa. With governmental services and supply links stretched to capacity handling emergency relief, and with the donor community and private and voluntary organizations occupied with the provision of life saving services, somehow agricultural inputs have been made available to farmers, crops have been sown, the rains came, and a good harvest was gathered and is now being marketed.

This, I believe, not only demonstrates the resiliency of Africans as a whole, but also the effectiveness of the private sector and the tremendous uncharted trade and commerce patterns at work in Sub-Saharan Africa.

The two lessons learned from the drought, (the resilency and resourcefulness of the African people, and the strength of the parallel market economy) make it increasingly clear that Africans must play to their strengths in formulating their development strategies.

Fortunately, this appears to be happening at a surprisingly rapid rate. The Africans are becoming more creative in the formulation of development policies and stategies.

We see more and more evidence that African leaders are moving away from strong centralized governments which promote over-zealous social service programs and state control of their economies. Africans are beginning to exploit the traditional strengths in their private sector and the free market economy.

In Somalia, the government has eliminated agricultural price controls and begun shifting grain marketing to the private sector. These actions have been a significant factor in increased grain production. Somalia has also adopted a policy to sell off some non-profitable parastatals to the private sector and convert others to a mixture of public and private firms.

In Togo, similar changes have taken place. Plans to sell twelve of seventy parastatals to the private sector have been announced by the government. In addition, the government is studying the possibility of getting out of the agricultural export system.

In Malawi, A.I.D. is assisting with the sale of a group of sixteen agricultural estates totaling about 60,000 acres to several U.S. investors who have modern farming and cattle raising operations in the United States.

In Kenya, a cabinet level privatization panel was appointed more than a year ago, and the government recently sold Kenya Fisheries Ltd. and put up the government long-haul transport company for sale.

These are only four examples of privatization efforts occuring across the African continent. We are making a strong attempt to tailor our assistance to support the growing pace of economic reform.

The FY-87 Program

We propose a program level of one billion dollars for Africa in FY-1987. This total includes development assistance, economic support and PL-480.

The $339.9 million proposed for development assistance includes:

--$148.0 million for agriculture and rural development

--$ 23.0 million for population

--$ 31.6 million for health and child survival

--$ 36.9 million for education and human resource development

--$ 20.4 million for selected development activities

--$ 80.0 million for the Sahel Development Program

In addition to development assistance, we request $410.5 million in Economic Support Funds to promote economic and political stability.

In PL-480 we request a total of $250.0 million: $158.0 million for Title I (which includes $20 million for Title III), and $92.1 million for Title II. Emergency food aid - if needed - would be allocated from the worldwide Title II reserve and would be additive to the requested levels.

For the past several years we have emphasized several specific themes in our African development strategy. We will continue them in the coming year. The principal ones are:

Agricultural Research and Production: In FY-87, we propose financing about $75 million in agricultural research activities. Some of this support will go to on-going institutional based research efforts, but much will fund on-farm and practical experimentation. We have become convinced that sophisticated agricultural research need not be carried out in every Sub-Saharan country, and with the exception of some central research facilities, our funding will be confined to research trials which will translate into immediate production increases.

Our support of direct production projects will also continue for FY-87, and will include about $65 million in development assistance support. These programs include agricultural inputs, technical and management training, water exploration and irrigation, and marketing development.

Human Resource Development: Training and institutional development have long been a cornerstone of the A.I.D. program worldwide, and this emphasis will continue in FY-87 with about $40 million made available for direct support and nearly twice that amount invested in training through our bilateral projects in the other functional budget categories.

Health and Population Development: Our bilateral health, child survival, and population support request for FY-87 is $54.6 million. We are currently emphasizing primary health care, child survival (immunizations, oral rehydration, and better infant and child nutrition) as well as support for Africa's increasing family planning programs.

The above three categories make up the traditional projectized core of A.I.D. funded activities. We will continue these efforts.

Enhancing Our Development Impact

The recent drought experience illustrates the importance of our emphasis on agricultural development and the improvement of social service programs. Africa is not food self-sufficient on a year-to-year basis. Until it is, countries with a solid and progressive developmental history can be almost devastated overnight by food shortages.

Agriculture and food production will continue to serve as the foundation for our program. But we can build upon some of the lessons learned during the drought. This re-examination of our programming serves not only to justify some revised strategies, but also adds immediacy to their introduction.

The fact that we want to build on the non-governmental strengths in Africa should not come as a surprise.

I find myself thinking of Mark Twain's story about the eighteen year old boy who thought his father was the dumbest man he had ever known, and then upon reaching twenty, he was startled to see how much his father had learned in two years time. Africans, too, have had the answer to their development dilemma all along. But it has taken the maturity caused by the drought, crushing debt burdens and declining economies to bring it to the surface. African leaders are finally realizing that growth comes through following appropriate economic policies and private sector initiative, not from government dictates.

Realistic policy based on market forces works in spite of the pervasive governmental ineptitude, and it insures that products flow in and out of markets based on actual demand rather than artificial government quotas set by ineffective parastatals. Most importantly, the private sector provides the major source of incentive and hope for hundreds of millions of people throughout Africa.

In order to tap the private sector developmental forces in Africa, A.I.D. is seeking to put an ever increasing focus on the following:

Policy Reform: In FY-87 we request funds for the PL-480 Title I program ($160 million); commodity import programs and cash grants ($200 million); sector and program assistance keyed to institutional and policy reform ($70 million); and, a continuation of the African Economic Policy Reform Program ($75 million). All of these efforts are designed to improve the policy environment in Sub-Saharan Africa with particular emphasis on reducing the size and control of government.

Direct Private Sector Support: We are planning to devote $12.2 million to new projects which will fund direct private sector support. In addition, we are making $2.1 million available for the African Private Enterprise Fund which will provide technical assistance and marketing studies to facilitate private sector development.

Private and Voluntary Organizations: We will continue to use private and voluntary organizations in the African program. The achievements of private and voluntary organizations during the drought were extraordinary. We want to continue to foster their participation during the coming year with non-drought related activities totaling $45.7 million.

Our intention to enhance our traditional African developmental emphasis to match the pan-African swing away from centralized governmental control is based not only on the experience of the past two years, but also on the difficult lessons Africa has learned the hard way during the post colonial period. In a recent article put together by the World Bank to explain differences in economic growth, a comparison was made between African and East Asian development patterns of the past two decades. Several important factors were noted:

-- East Asian countries stimulated private savings and initiative through low taxes and free markets. In contrast, African governments overextended themselves, particularly in the direct management of industry and agricultural marketing.

-- Economic growth is strongly correlated with real growth of domestic credit to the private sector and the share of private sector credit in total domestic credit. Growth of credit available to the private sector has been much higher in East Asia than in Africa.

-- The private sector uses its resources much more effectively than do government and public enterprises.

-- Governments can stimulate private agricultural production in such ways as reducing price controls, permitting private sector marketing of farm products, and providing timely, adequate supplies of fertilizer and seeds to small farmers. Countries like Zimbabwe, Kenya and the Ivory Coast that have done a comparatively better job in encouraging the private farmer have historically registered significantly higher production levels than have countries such as Ghana and Tanzania, which have had less favorable policies.

-- Many African leaders now admit that nationalized economies and statist policies are a major factor contributing to their poor economic growth record. There is, as a result, a strong movement to privatize state operated enterprises.

The necessity for African governments to divest themselves of price and marketing responsibilities has broader application than breaking up parastatals and removing price subsidies.

The debt burden of African governments, when combined with the low tax base and recurring institutional obligations, leaves little or no discretionary income for developmental investments.

Expansion of necessary and appropriate social services such as health may well be more effective if partially removed from the public sector. As an example, health budgets rarely comprise more than three percent of national budgets in less developed African countries (as compared with five percent in middle income countries and eleven percent in the industrial world). This makes long-term support for publicly financed health interventions extremely difficult - particularly where the revenue base is small.

Taken as a region, Africa is the most sparsely populated geographic area in the developing world. Thus, the per use cost of delivering services is very high due to transportation and manpower constraints.

We are implementing a strategy which will put an increasing emphasis on private sector support coupled with community controlled service systems. If curative health services are now being delivered through indigenous practitioners and druggists, then we should support them directly rather than building up another central system under government control which lacks community trust and support.

We believe the same sort of emphasis will work in agriculture. Historically, in areas where the production and marketing of crops are tightly controlled by government (peanuts in Senegal and Gambia, corn in Madagascar and until recently in Ghana, rice in Madagascar, cotton/coffee in Tanzania) production decreases. As the price for cash and food crops is allowed to float (sorgham in Sudan, and recently with corn in Ghana) production increases. Not only does the private market system work in Africa, it requires a minimal infrastructure investment from government.

In Rwanda recently, new potato varieties with the potential to more than double yields have been developed by the International Potato Center in collaboration with the Rwandan national research system. In fact, the new varieties developed on experimental test plots are in such high demand that farmers are making midnight raids into experimental fields, digging up new seed potatoes, planting them in their own fields and then selling their crops to traders who market them throughout Rwanda and Eastern Zaire. In the process, the new varieties are spreading rapidly throughout the area without government assistance.

The Job Ahead

A.I.D. has sponsored a core of returned participants throughout Africa waiting to make a contribution to Africa's development. Although some are in the public sector, many of these people are in the private sector furthering the development effort in their country.

We also have U.S. direct hire and foreign national staffs in our missions who continue to demonstrate their extraordinary degree of dedication to duty. Their performance during the drought is only the most recent example of their work.

Certainly the upcoming years present a real challenge for us in Africa. I believe we have much to offer. Africans themselves, however, must take the lead and make the tough decisions. Most have, in fact, begun making dramatic and often politically risky changes which hold out the potential for healthier economies and improved living standards. We should not step away from them just as they finally start making the right moves.

I would be delighted to respond to your questions. Thank you.

MARK L. EDELMAN

EXPERIENCE:

1984 - present Assistant Administrator
Bureau for Africa
Agency for International Development

1983 - 1984 Senior Advisor to the Administrator and Executive Secretary, Agency for International Development, Washington, D.C.

1981 - 1983 Deputy Assistant Secretary, Bureau of International Organization Affairs, Department of State, Washington, D.C.

1981 Program Analyst, Agency for International Development, Washington, D.C.

1977 - 1981 Legislative Assistant to Senator John C. Danforth, Washington, D.C.

1975 - 1976 Deputy Commissioner of Administration, Office of Administration, Jefferson City, Missouri

1973 - 1976 Director, Division of Budget, Office of Administration, Jefferson City, Missouri

1972 Gubernatorial campaign staff of Christopher S. Bond St. Louis and Jefferson City, Missouri

1968 - 1972 Budget Examiner, Bureau of the Budget/Office of Management and Budget, Washington, D.C.

1968 Cost Analyst, Planning Research Corporation, Washington, D.C.

1965 - 1967 Management Intern and Africa Budget Analyst, United States Information Agency, Washington, D.C.

EDUCATION

1961 - 1965 B.A. (History), Oberlin College, Oberlin, Ohio

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RATIONALE FOR U.S. ASSISTANCE TO AFRICA

Mr. **Obey**. Do you think that we ought to provide support for Africa, economic and military?

Secretary **Crocker**. We do, indeed, Mr. Chairman.

Mr. **Edelman**. Yes, sir.

Mr. **Obey**. Do you think it is important for the national interests of the United States that we do that?

Mr. **Edelman**. I will let Mr. Crocker answer more than I do, but I think that there are a lot of reasons for supporting Africa. Among them, in my view, as a world power, I think we have a responsibility to support them, especially now that they are changing, especially now, when they are beginning to do the right kinds of things. If this were five years ago, I do not think my heart would be in it as much as it is now.

ECONOMIC CHAOS IN AFRICA

Mr. **Obey**. Do you know any place in the world, where the economic situation is chaotic as it is in Africa?

Secretary **Crocker**. I think the relative social indicators that I am submitting for the record, would underscore your point. It is, in fact, that region of the world where you have the lowest indices of people who are educated, the lowest levels of caloric intake per capita, and so forth. But the point is that we see a turn-around potential here and we also see a humanitarian imperative.

AMERICAN PUBLIC OPINION RE: FOREIGN AID

Mr. **Obey**. I guess I share that view, which is again, why I am buffaloed by the fact that—well, let me put it this way.

Mr. Edelman referred to the fact that we had a conversation about a month ago, talking about the budget crunch that we are in, and we certainly are. And nobody is going to be squeezed tighter than this Committee.

And I do not think that there is any support out in the countryside for providing economic or military aid to Africa or any other region of the world. I have heard member after member tell me, on both sides of the aisle, that in their polls 70 to 80 to 90 percent of the public does not believe in foreign aid, and does not want it. I think a good deal of that is because they do not understand the role that it plays in defending our interests or defending our values.

But the problem is that I cannot remember any president going as far back—well, I think that you have to go all the way back to Jack Kennedy, before you find a President who bothered to spend any amount of time at all telling the American public why this stuff is important.

Now, I do not think that you can expect the American public to support this stuff, if they have not been told and obviously there are only so many times that a President can go to the well of public opinion asking for support.

But if on those occasions when the President does go to the well, he is going to focus his efforts on military aid for Contras in Nicaragua, and military assistance for Mr Savimbi, who has not shown me much in terms of his ability to expand very much beyond his own tribal territory. I guess I just think that people are asking us to do something that is almost impossible to do. Because if the President is going to use what precious time he has and what precious access he has to the American people to focus on issues that are that narrow, when the whole damn house is falling down, as far as Africa is concerned, then I do not see how we will ever get the support for the programs that we need. Just to comment.

MERITS OF MULTILATERAL VS. BILATERAL AID

Let me ask you this question—Larry Eagleberger and Don McHenry also had a piece in the Post a while back and they said this,

> Congress has rightly recognized that if we want to tie aid to policy reform and ensure that aid is used in a leveraged manner in delicate political areas, then a good way of doing that is to push the cash through proven and effective multi-lateral channels, such as the World Bank, rather than through bilateral vehicles, such as U.S. AID, which are often perceived to be influenced by foreign policy issues.

They also state,

> IDA represents an important instrument for African development strategies that directly serve U.S. interests. It is critical that the United States go to those negotiations in a spirit of leadership concerned with strengthening IDA, and its future role in Africa in particular.

Two questions. Do you agree with Mr. Eagleberger's Statement about IDA?

And why have you requested no second year funding for the Special Facility?

Secretary CROCKER. Mr. Chairman, I might take a shot at that and perhaps Mr. Edelman would want to comment, as well.

We do not think it is a question of either/or; that is, either bilateral or multilateral. It is a question of both. We have, obviously, considerable funding in both channels and we will continue that. We have used our influence to try to increase the activity of IDA in Africa. That is to say, to increase Africa's share of IDA's resources under the existing IDA program. It is our hope that, if the Baker proposals of last fall garner further international support, this will have the net effect of further targeting what the international financial institutions do in Africa.

As concerns the questions you raise about the next tranche of funding for IDA, this is under discussion inside the Executive Branch, and I cannot say that any decisions have been made yet.

But on the Special Facility, as I said, in my opening statement, we believe that our own African Economic Policy Reform Program gives us the ability to accomplish that objective. We are not ashamed of our own bilateral programs. In fact, we think that the program has already had some concrete results that we can point to, where the program has leveraged the dismantling of a parastatal here, the freeing up of fertilizer prices there. That is the whole purpose of it.

And I do not know, Mark, if you want to comment further?

BILATERAL VS. MULTILATERAL ASSISTANCE

Mr. EDELMAN. I was a little surprised when I read it, in that especially former Secretary Eagleberger, in my view, slightly over-states the case for IDA, in the sense of understating the case for bilateral aid.

IDA is indeed extremely effective. But why is it, then, that when IDA hits town in most of these countries, one of the first places they stop is the AID mission, if indeed the AID mission did not have a lot to offer them? In one of our economic reform programs, the finance minister of one of these countries said to our Ambassador, after we—not the Bank—had worked out a reform program with him, how grateful he was that finally someone sat down and talked to him and understood his problems, unlike all the years he has been trying to fight with the World Bank on certain problems. I do not mean to be denigrating the World Bank by any means, but I think that it sells short what we can do and what we have been able to do through our reform program and through our leadership in the last five years.

FUNDING FOR AFRICAN SPECIAL FACILITY

As Secretary Crocker said, this special facility was our idea. It was not the Bank's idea. And I know exactly how it started and when the conversation started. It was the idea of the United States of America.

The idea of the Baker Proposal that was introduced at the Seoul meeting last year and is now being so widely discussed is now before the Bank and the Fund. That really originated in the Treasury Department of the United States. The idea is spoken now more and more throughout Africa that the answer to Africa's long-term problem is economic growth. That was, indeed, the United States' role and that was done bilaterally, not multilaterally.

Discussions are now under way for the replenishment of IDA-VIII. Indeed, you would really have to talk to people in Treasury, rather than myself, but clearly we have been working, and Secretary Baker and the Treasury Department have been working on trying to get increasing shares of IDA-VII and IDA-VIII for Africa, especially if there is an increase in IDA-VIII.

And there is a growing—I do not know, consensus might be too strong a word—but there is a growing feeling among a lot of the major donors that Africa would get a larger share of IDA-VIII, especially if there are some increases.

Mr. **Obey**. A larger share of a smaller pot does not go very far.

Mr. **Edelman**. Well, if there is a larger share—The problem there is if what I would call the Obey levels, as we have discussed, wind up being enacted into law, the whole discussion——

Mr. **Obey**. Oh no, those are not the Obey levels, those are the Reagan levels. Do not shoot the messenger. I am not giving you a message that I enjoy giving but I am telling you I can count.

Mr. **Edelman**. Fair enough. Let me just say that if the levels that you and I discussed are enacted, the best we are going to wind up with is about 80 percent, I believe you said, of—

Mr. **Obey**. It is not I who is asking that we fund these programs without paying for them. It is the President, and the Congress is not going to do that.

POTENTIAL FRAUD IN USE OF AID FUNDS

Let me ask you--what is really bugging members, especially since the Philippine scandal—virtually every member I talk to says "look, you know what has happened in the Philippines is probably not unusual, a lot of thieves are around the world who are ripping off everything they can touch."

Let me ask you, in the AID programs that we administer and the military programs that we administer, given the fact, the stories that have come out in the past few days about what may have happened on FMS credit sales and what might have happened on the ESF money in the Philippines—everything from double billing to phoney billing, you name it.

What kind of assurances can we have in this Committee, that if we appropriate money to kleptocracies, like Zaire, that the money is not just going to be ripped off?

How can we tell taxpayers, with any assurance because I certainly do not feel assured, that if we provide this money bilaterally or multilaterally, that a large share of it is not going to get ripped off?

What kind of special techniques do you have to assure that the people who get the money are not kicking back, are not siphoning off to people in governments or in some of the businesses that are participating in the projects, some of the organizations?

AID ACCOUNTABILITY FOR APPROPRIATE EXPENDITURE OF U.S. FUNDS

Mr. **Edelman**. Let me answer a little bit, and then Mr. Love, Ray Love, on my right here, who is my Senior Deputy, Mr. Chairman, and then I will let Mr. Crocker talk about the military side.

AID is an incredible bureaucracy, I have found as an outsider. And one of the reasons it is an incredible bureaucracy is to try and prevent exactly what you are talking about.

We do enormous amounts of paperwork and paper trails on everything to try the best we can to make sure that does not happen.

Even with the cutbacks that we are experiencing now, our Inspector General is not experiencing the same kinds of cuts in his operations funding that the rest of the agency is.

In a case like Zaire, all the procurement actions, for example, are handled by AID, not by the government. We do all the purchasing—either Americans at our mission there or A.I.D. staff in Washington. The government of Zaire does not get involved in most of those things. We jump through a whole lot of hoops to make sure that there, and in other countries as well, where we have reasons to suspect any type of misdoings, that they do not occur by how we are doing procurement actions.

And it takes us a long time, as a result, to get those procurement actions through because we are so careful about what we are doing.

Is there no fraud? I can never say that. I am sure we are going to find it occasionally. The Inspector General once in a while pipes up with it, and I think that in any system you have, you almost surely will. But there is clearly, in all honesty, at every level in AID an extraordinary sensitivity to any kind of fraud that may go on or any kind of abuse that may go on. The merest whiff of it, at least as far as I am concerned, the couple of times that I have seen it I have gone straight to the Inspector General.

Peter McPherson does the same thing on any type whatsoever with those kinds of things.

Mr. **Obey**. Are you confident that your people on the ground in all of these A.I.D. missions both in the economic and military side, are you confident that the local people really have sufficient idea about where this money is going to to make sure that it is not going to be skimmed, gauged whatever you want to call it?

And I assume that you have more confidence in some areas than you do others, and where do you have the least confidence?

Mr. **Edelman**. Well, two comments. In some of those areas where there have been in the past the most problems, such as Zaire, we go through extraordinary efforts. In the case of the Sahel, where we have had great problems in the past, we have instituted—the law has required us to institute and I am glad it did; it happened before I came here—extraordinary procedures on accounting and the handling of the funds in the Sahel. So that contrary to a few years ago where we had audit exceptions by the staff in the Sahel, we have virtually none at all, maybe a few of them and none of them are very major in the Sahel any more on the financial management, because we have engaged in financial training. We have had a special Sahel financial management program where we have trained government people and others who have to handle these funds.

Mr. **Obey**. Mr. Kemp?

Mr. **Kemp**. Thank you, Mr. Chairman.

DOWNFALL OF SOCIALIST SOVIET MODEL

Welcome. I did not get a chance to hear all the testimony but I heard enough of it and the dialogue that ensued to have a line of questioning that has to do, generally speaking with African development. It is one you alluded to, Mark, and also deals with the security issue in southern Africa. I would like to follow up on this, and then I have got to go and vote.

I do not agree with my Chairman, I am sorry that he is not here, but for the record, I do not agree with the Chairman that the House is falling down or in. I would take a more optimistic view of develpments not only in Africa, but throughout the world. With all due respect to the problems and the great challenges, I agree with the testimony, I think, of Mr. Crocker, or maybe you, Mr. Edelman, that the Socialist Soviet model is a joke. The Soviets are really not looked on with any degree of envy or appreciation, and their model is not a model for anything but oppression and tyranny and economic disinvestment or almost an implosion of economies. It just is not working. From Ethiopia and the northern part of Africa, to other countries in southern Africa, socialism and certainly Soviet style socialism is not looked to with any degree of credibility. Notwithstanding the very tremendous challenges the free world and the democratic capitalistic model has, it seems to me that this is a time for appropriate policy and it is wise to look both at the bilateral and programs as well as the multilateral aid programs.

IMPORTANCE OF TRADE TO FOREIGN AID EQUATION

I am a supporter of foreign aid. I come from Buffalo, New York. I am a conservative Republican who supports Ronald Reagan and frankly, the folks that I represent in Buffalo are not opposed to foreign aid, as long as they feel like this country is supporting its national interests, the defense of western values, and, of course, helping advance a global economic expansion that would be a market, as you pointed out, for U.S. exports. Forty percent of all our exports go to the third world. We have a big stake in getting those economies on their feet.

We did it in the Caribbean with the Caribbean Basin Initiative. We should do more to implement it. I wonder what you think about an African initiative? What if we said to African countries, who align themselves with western foreign policy and economic policy, that we would open up our markets, that we would encourage investment, we would tear down those barriers that stand in the way of a greater bilateral, multilateral trading system with the African continent?

What would be wrong with bringing in African ambassadors and heads of states, and starting to design an African initiative, not unlike what we did in the Caribbean, again, not withstanding some of the problems that still exist in the Caribbean.

What do you think of my idea?

ENCOURAGING PRIVATE INVESTMENT AND POLICY REFORM FOR ECONOMIC GROWTH IN AFRICA

Mr. **Edelman**. We have done some of that, but not a full scale major initiative the way that you have discussed it, Mr. Kemp. We have had an accelerating number of investment missions here and over there. OPIC is finally generating more trade missions. In fact, I believe they are going to Cameroon, Zaire and the Ivory Coast right now.

AID is beginning to fund business surveys and investment climate surveys in various African countries in order to get more interest in investment in Africa.

So clearly, we, the donors, do not have the capital that Africa needs. It is not going to come along, even assuming we get our full budget request, from us or from the other donors. The capital has to come from internal savings and from investment.

Mr. **Kemp**. That is right, and in encouraging capital to stay in a country or to come into a country.

Mr. **Edelman**. That is right

Mr. **Kemp**. And there are capital controls in third world countries that discourage capital from coming in, in the first place and foreign exchange controls which push capital out.

Mr. **Edelman**. You are exactly right and that is some of what we have been trying to encourage in our policy reforms—the removal of disincentives to investment in countries. Part of that also goes to the problem of political stability, however, which is also what we are trying to do with some of the security assistance funds and other programs.

AFRICAN ECONOMIC POLICY REFORM PROGRAM

Secretary CROCKER. We have taken a couple of initiatives, Congressman, as you know, the Economic Reform Program, and really targeting policy changes by recipient governments.

I think it is a modest beginning that we have made, but it underscores your very point. The basis message we are hearing overwhelmingly from African leaders, is here we are. We would like to be closer to you economically come and get us. And we are trying to point out the road map of how they become credible economic partners to our private sector and it is an education process.

Mr. KEMP. I am going to have to leave and I apologize for it, but it is one of those days.

NAMIBIA SETTLEMENT/CUBAN TROOP WITHDRAWAL

But, Mr. Secretary, let me ask you about your recent trip. You talked, I think, about some type of possible agreement with South Africa on independence for Namibia predicated upon a withdrawal of Cuban troops from Angola.

First, what is the latest with regard to the possibility of the UN resolution being implemented; and, number two, what conditions did you lay down on Angola for the withdrawal of Cuban troops and pilots and support in the military?

Secretary CROCKER. Congressman, we have had on the table for just about a year now, some U.S. ideas which we asked both South Africa and the Angolan government to reply to. The South Africans, last November, did reply in a way that represented some forward movement. We have not seen a similar step forward from the Angolan side.

Mr. KEMP. The MPLA?

Secretary CROCKER. The MPLA, yes. It was partly for that reason that we urged that an additional step be made; to make clear the sincerity of the South African commitment to implement UN Resolution 435, if, and that is the big if, we could get a satisfactory agreement on Cuban troop withdrawal from Angola. The South African announcement represents a success of our diplomacy. It is, obviously conditioned on getting that kind of an agreement on Cuban withdrawal. We have had some contact since then with the Angolans, but we do not have any clarity as to whether or not they intend to seize this opportunity—that is really what it is, we have a five-month opportunity to accelerate the negotation and then to see if we can get a compromise agreement on this issue. So, I do not think that we can say that the door has been closed or that we have got a dramatic breakthrough. We are not saying that.

U.S. SUPPORT FOR UNITA

Mr. KEMP. There is a widespread impression, that I know that you have heard, that you are one of those withholding or suggesting that we withhold any support for UNITA in Angola, in order to force the hand of both South Africa, and the MPLA toward this UN resolution.

Is that true or false? What are we doing with regard to giving assistance to what the President determined a very important two-track policy of pursuing the diplomatic effort to make Namibia independent, while at the same time, putting pressure on the MPLA through Savimbi's forces?

Secretary CROCKER. Well, I think you have accurately described the President's policy, which is our policy. We are all carrying it out. There is no question of holding back or anything. We have made certain determinations here, and we want to provide effective and appropriate support to UNITA and that is what we are going to do.

And so that is straight forward. This latest movement in negotiations is simply an effort to further underscore what the opportunity could be, if people want to pursue the track of negotiations.

Mr. KEMP. So that support is forthcoming to Savimbi?

Secretary CROCKER. The decisions have been made and that is really all I can say on the matter, Mr. Kemp.

ANC AS FREEDOM FIGHTERS

Mr. KEMP. The question comes up of whether or not you consider the African National Congress and the ANC freedom fighters in the same context as the President has defined freedom fighting in our hemisphere.

Do you, or what is your attitude to the ANC?

Secretary CROCKER. Congressman, one of your colleagues sought to lead me down a certain garden path, recently on that very subject, by posing the question as to whether or not people are fighting for their freedom in South Africa, which clearly they are. We recognize that. We made the point, I made the point, that a number of different groups are seeking their freedom in South Africa, seeking a just system there, and using a wide variety of means.

I also underscored the point somehow, although I do not know quite how the Washington Post managed to miss it, that we do not approve or support or endorse the use of terrorist violence to accomplish those objectives. I underscored that point repeatedly in my testimony, the other day, and that is our view. So, while it is true that there is a variety of groups, including the ANC, who are working for the goal of black rights in South Africa, we cannot support the use of violence as a means of getting there.

Mr. KEMP. Yes, we do not want to replace one form of violence, Apartheid, with another form of violence.

Secretary CROCKER. That is our view.

Mr. KEMP. I liked Charles Krauthammer's postulation of the third force strategy theory that our interests should be in rejecting both forces of oppression and building up a democratic center. It seems to me that it is important for us, not only in Central America, but in Africa, and throughout the world to begin to recognize that we want to support and encourage moderate, democratic, centrist solutions.

And it seemed to me that, while Buthelezi does not speak for all blacks in South Africa, he has labeled the ANC clearly from his standpoint—a group that is trying violently to overthrow it. And it would be a shame, it seems to me to see the oppression of Apartheid, replaced with the oppression of a communist or Marxist tyranny. We would have a big stake in—I have to go, sorry.

You get a reprieve.

Secretary CROCKER. Thank you, Mr. Kemp.

Mr. OBEY. We will take a five minute recess.

[Whereupon, a brief recess was taken at 2:50 p.m.]

Mr. OBEY. The subcommittee will come to order at 2:55 p.m.

GAO REPORT ON AID TO SOMALIA

The Secretary, or any of you who want to respond— a recent GAO report on Somalia and AID's food program said this, "In Somalia, where only 12 percent of the food reaches the most needy, the food shortage was not as severe as originally projected because of unreliable production, existing cereal reserves and consumption requirements, therefore Somalia received more emergency food than it needed and this contributed to the fact that 58 percent of it was not distributed.

"The remaining 30 percent, which was supposed to be sold to residents of urban areas, through commercial channels, was sold to public institutions, including Somalia's armed forces. In Somalia, where the mission performed little monitoring prior to our visit, mission officials did not know how much emergency food the military had purchased and were not aware of poor storage conditions." The report went on to make some other comments.

What has been the State Department's and AID's response to those GAO comments?

AID RESPONSE TO GAO REPORT ON U.S. FOOD ASSISTANCE

Mr. EDELMAN. Mr. Chairman, I just looked at that and I believe that we just got it in, in fact, last week.

I looked at it, in fact, shortly before coming to this hearing. And I was very disturbed by what is there. Indeed, if it is all as it says there, there is a lot to be alarmed about. We have asked——

Mr. OBEY. Excuse me for interrupting. What I should have read was this—

> Government officials intercepted and sold 2,500 metric tons in Fiscal Year 1984 Title II-World Food Program wheat flour, for about 17 percent of the prevailing market price to friends who resold it for a profit
>
> The flour was supposed to be sold and the proceeds used for a local development project.

Mr. EDELMAN. I point out, Mr. Chairman, not as a defense, but that is World Food Program food that they are talking about, not the United States food aid program. But let me get back to the fundamental point that I wanted to make, which is, we have asked our own Inspector General to follow up on that report and to look into all of those charges. I am encouraging him to do it and he has my full support in looking into all of those things.

I do know that those were events which occurred in 1984, and I understand, from discussions with the GAO earlier last year when they were reviewing some of these, changes were made in 1985 to correct some of the problems. But why they were even allowed to exist in 1984, I am not yet quite sure, and our Inspector General is looking into it with my wholehearted support.

Mr. OBEY. Do you know what we have done so far? I mean have we complained to the Government there?

Mr. Edelman. Yes, we did. In fact, on the food—

Mr. Obey. And in light of that, why should the Committee, given the fact that you are proposing to increase the Somalia program which is already the second or third largest in Africa, why should we proceed to support that request at this time?

Mr. Edelman. On the food sales, our mission there did repeatedly raise that with the government of Somalia. Part of it was a result of bad record-keeping by the government, which I know our AID mission director there went in on several occasions or at least on one occasion and raised with the government of Somalia. I do not know what happened as a result. I know he did raise it.

But what you are speaking of there is the PL-480 program. The increase for 1987 is on the ESF side, which is different than PL-480.

Mr. Obey. I understand, but what was ripped off in the Philippines was allegedly the military credit sales program but ESF money is pretty vulnerable as well, given the role that Mrs. Marcos played in its distribution.

I mean it does not just tell you something about a program, it tells you something about the country as well and the system's protections that we have built in.

Mr. Edelman. I agree with you that it tells you something about the country and I just cannot answer you about the systems and what we have done to correct that. I do know how we handled the ESF which is not in the same manner that PL-480 was handled. That is all I can tell you at this time because I have not looked into it more, except just to have read it, Mr. Chairman.

Mr. Obey. Okay, we have talked some about varying views about what is going to be needed to deal with African hunger this year.

As you know the Hunger Committee has a somewhat different view than the Administration has about the program needs for the coming year.

It is true that all of the funds that Congress provided last year, were used, is it not?

CURRENT STATUS OF AID EMERGENCY OPERATIONS

Mr. Edelman. They have to be obligated by the end of this month and they will be.

Mr Obey. Are there not additionally AID borrowed funds from its development accounts to also buttress our efforts in this area?

Mr. Edelman. Prior to the time emergency, funds were made available to us through the supplemental appropriation. We did borrow funds from our development account to speed our response to the crisis in Africa. We have not had to do this again, and the funds we are currently obligating are entirely from the supplemental appropriation.

Mr. Obey. So, in other words, the Administration's estimate of need was pretty far off. With the benefit of hindsight, if I am to tell the Hunger Committee that this time around we do not need the kind of exercise that we had last year, what can I cite to demonstrate that the Administration has a whole lot better estimate of what is going to be needed in the hunger area, then they did last year?

Mr. EDELMAN. Let me make a few commments on that, Mr. Chairman, as far as the funds spent. Of the $135 million which we received the supplemental appropriation, only $75 million of that went directly to emergency relief. The rest of it went to recovery activities.

And I believe in our disaster assistance supplemental, we were talking about on the order of $25 million. We asked for $25 million so that we were off by $50 million.

This year, the drought by any standard, except for very few countries which I could list, is over in Africa. It is not over in Ethiopia, and it is not over in Western Sudan. There are still problems in Mali. Mozambique is a problem and Angola may be a problem. Cape Verde is a small problem and Mauritania possibly.

The bulk of the problem right now rests in Sudan and Ethiopia. In Sudan the food is in country. It is not like last year when there was insufficient production. The problem in Sudan is one of distribution. There is a million-ton sorghum surplus of production this year in Sudan. The problem is that it is not distributed properly. The surplus is in the eastern Sudan and the drought and where people do not have the money to buy it are in western Sudan.

Mr. Love just about a month ago was in western Sudan and can talk more about that. The problem is getting the food from eastern Sudan to western Sudan. We do not need to ship more food into Sudan—it is a distribution problem.

FOOD NEEDS IN ETHIOPIA

In Ethiopia, estimates by the U.S., the FAO, all the international organizations, are that the emergency need in Ethiopia is about 900,000 tons for this year. We have pledged to meet one-third of that amount and we will meet that 300,000 tons, most of which we have already shipped.

U.S. ESTIMATE OF AFRICA'S FOOD NEEDS

Mr. OBEY. Let me just interrupt you at that point. You said 900,000 tons are needed in Ethiopia?

Mr. EDELMAN. Yes, yes.

Mr. OBEY. The president of the Ethiopian Evangelical Church is quoted as saying that,

> While conditions have become better in some areas, severe crisis remains in others, and some 6.5 million people are likely to need assistance in 1986 as compared to 8 million in 1985.

He said,

> 1.4 million metric tons of food are needed to tide the population over.

How do you match those figures?

Mr. EDELMAN. First of all, I think he is overstating it, but let me explain. When I say 900,000, that is additional food that needs to be supplied. There is a carryover of about 306,000 tons that was purchased out of prior-year funds that will be delivered this year.

So, we are really talking about 1.1 million tons that should be compared to his 1.4, and it is 900,000 tons that has to be supplied out of Fiscal Year 1986 funds that are not already en route.

He is the only one saying that, Mr. Chairman, along with only a few other groups. The FAO does not say that. The World Food Program is not saying that. And last year we had a wide gap.

Surprisingly, because of the way that we have been able to improve our monitoring techniques and our estimations we have not found that larger estimation to be true.

The spring rains, called the Belge rains, have come in most of Ethiopia. There are a couple of pockets there where it is bad. I do not mean to say that the drought is over in Ethiopia, but in southern and eastern Ethiopia, there are still some problems, and there are some isolated pockets elsewhere in that country, so that I am not saying the drought is over.

But we have not seen any indications from any of the other international observers that those kinds of numbers will be required.

SUDAN AND LIBYA

Mr. OBEY. How about the Sudan? The U.S. assistance program has been the largest U.S. A.I.D. program for quite a while. And, since 1981, the Sudan has been approximately twice the size of the next largest program. What is the relationship of Sudan to Libya these days?

Secretary CROCKER. Mr. Chairman, with the overthrow of the Nimeiri government, we have sought to maintain a very strong and healthy relationship with the country, because of its location, because of cooperation we have had with it and because of its humanitarian disasters during the past year. We have also been trying to encourage successful transition, as they have pledged, to constitutional rule, democratic rule.

During this process, we have had in power a transititional government which has been in a rather delicate situation. That government faces a very severe problem in the south of a rebellion that is being actively fueled from neighboring Ethiopia. And it has experimented with several different lines of policy. It has sent out emissaries and feelers to us and to our western allies. Also the Egyptians, the Saudis, and the Libyans are clearly trying to get a foothold in there and offering things to the Sudanese leadership which it finds attractive. This government has about three weeks to run so that it is a rather delicate situation right now. There will be an election, we assume, as scheduled in April.

NATURE OF SUDAN'S AID REQUEST

Mr. OBEY. When the Sudan made its request of you for assistance, what did they ask for? Did they ask only for ESF and military assistance increases?

Secretary CROCKER. We have ongoing programs in several areas, as you know, including PL-480, ESF, and DA, and we have had a military assistance program for some years.

Mr. OBEY. Forgetting PL-480 which we do not technically have before this Committee, if you take DA, ESF and military; if proposed development assistance is $28 million, the same for 1986, you are proposing that we increase ESF from $59 million to $90 million; and military from $20 million to $51 million—almost $52 million. And they only ask for increases in ESF and military?

Secretary CROCKER. They have asked for restoration of previous levels. As you know, in 1986 we were very severely affected. The 1986 level that you are referring to in both ESF and MAP represent very severe cuts that we took only with enormous agony in terms of our internal budget allocations process, because of the shortfall worldwide.

Mr. OBEY. What is the answer to my question, did they ask for increased economic development assistance as well?

Secretary CROCKER. They asked for the categories to be restored that were severely cut. I am not aware of them specifically——

Mr. OBEY. So, how, given the economic situation in the Sudan, do we wind up simply seeing a request that increases military and ESF but not development assistance?

Secretary CROCKER. The economic problems that Sudan faces, those that concern balance of payments efforts, are overwhelming and we have been trying, through our ESF which is the relevant kind of program there, to shore up their balance-of-payments situation to help provide needed commodities— the commodity import program.

Do you want to address that question?

U.S. ASSISTANCE TO THE SUDAN

Mr. EDELMAN. Thank you.

The primary need in Sudan today is to address their short-term problems, which is what the ESF is geared for—the balance-of-payments problems and their inability to import goods. What we would do with most of those ESF monies is to gear most of that to the private sector for importation of goods.

They have almost no foreign exchange. Their debt service ratio is well over 100 percent. They and at least two other countries, I can think of in Africa have a debt-service ratio over 100 percent and cannot import much. What we are trying to do there is to help them get imports and spare parts into productive sectors so that the economy can move instead of just further stagnating.

Secretary CROCKER. Mr. Chairman, on the military side, it represents an effort to restore to a workable level—given the size of the program that we have had there for some years. We were cut way, way back for this current year, below $20 million as you see, and that is not the normal level we have had in recent years. We are trying to get it back up to the level of $50 million as we requested.

Sudan is facing severe challenges along its borders.

SIZE OF SUDAN AID REQUEST

Mr. OBEY. The Administration is asking almost 20 percent of all U.S. assistance for the 45 countries that we provide assistance to in Africa, for Sudan. How do you justify that large a piece of the action for one country?

Secretary CROCKER. Mr. Chairman, it is Africa's largest country and it is a crossroad between Arab and Black Africa, and we have a number of different kinds of interests there related to the Middle East situation and to the stability across the Red Sea; neighboring relationships between Sudan and the Saudis; the Sudan and the Egyptians are a very important part of the equation, as well as our interests in the Horn of Africa. It is a country that has a long tradition of humanitarian excellence, receiving refugees from across borders, receiving them openly and generously. We have many interests there.

POLICY REFORM IN SUDAN

Mr. OBEY. What kind of policy reforms have you been able to get out of the Sudanese Government? You indicated earlier that we needed policy reforms across-the-board in Africa, in order for them to solve their own problems.

What policy reforms have we succeeded in getting out of the Sudanese?

Mr. EDELMAN. We have over the years gotten several, Mr. Chairman. Among them we have succeeded in freeing up sorghum prices, so that they are now at a free-market rate.

We have had some success in getting them to turn over part of their petroleum distribution to the private sector and other economic liberalizations. I will be very honest with you though and say that they have taken some steps backwards recently. And as the reforms that we have had some successes on, especially under President Nimeiri, were just about to blossom forth, the government has recently taken some steps that are a bit discouraging.

But even this regime has gone back and forth on devaluations of the Sudanese pound which has been helpful to the economy, and the government of Sudan has been taking one step forward and one step back in the last few months.

I think that is because of the fact that right now, they are heading towards elections, as Mr. Crocker said. They are supposed to occur between April 1 and April 12 and they are just afraid to take any kind of bold moves right now. It is very much a transitional regime with a transitional mentality. But we will be in there with some of the other donors trying to get them to face up to some of their problems.

If I may go back, Mr. Chairman, to the question of why so much in Sudan?

It is a broader issue. In some countries people ask frequently why are we so heavily involved in one or less involved in another? And it does not necessarily reflect directly U.S. interests per se. It reflects who is taking the lead in a particular place.

THE FRENCH ROLE IN WEST AFRICA

That is to say, in Francophone Africa we may have great interests in many of these countries, but we do not contribute a lot of money because the French have historically taken the lead. The Germans may take the lead in another country, the UK in some others; it has developed over time who is the lead donor in which country.

FRENCH AID IN THE SAHEL

Mr. OBEY. Well, if that is the case, why do we not get more help out of the French in the Sahel area?

Mr. EDELMAN. The French are the major donor in the Sahel. The French do have the lead with the Sahel. They far and away outspend us. Our request is for $80 million next year for the Sahel and I am sure that the French are putting in several factors of that amount over what we are putting in there. Mr. Crocker just said ten times that amount.

Mr. OBEY. Economic and military?

Mr. EDELMAN. Yes, sir, absolutely on the military and on the economic. The French are way out ahead of us on the Sahel and across-tbe-board, and in fact, throughout most of Francophone Africa.

We put in a minor part compared to what the French are doing. The French are in the ministries, there are French cooperants working directly with the Finance Ministries or the Agriculture Ministries or the Technical Ministries in most of these countries.

Mr. OBEY. Well, in that case, I have got several questions for the record on that point which I would like you to respond to at this point.

Mr. EDELMAN. I would be glad to, Mr. Chairman.

[The information follows:]

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

APR 14 1986

The Honorable David R. Obey
Chairman, Subcommittee on Foreign Operations
House Appropriations Committee
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to the question you posed at the March 18 hearings regarding French aid to the Sahel.

From 1975 through 1984, France gave $2.9 billion in economic assistance, the largest sum contributed by any of the donors; during the same period, the United States contributed $1.3 billion. U.S. assistance has been in the form of grants and food aid but France has been providing increasing amounts of loans, which have grown from 30% in the early years to 60% of total French economic assistance in 1983.

French aid has been used largely for technical assistance, but budgetary support and rainfed and irrigated agriculture projects have also been funded. In contrast, U.S. assistance has concentrated on food aid, rainfed agriculture and agricultural research.

Our table, Attachment 1, taken from the A.I.D. publication "U.S. Overseas Loans and Grants" and the FY '87 Congressional Presentation, shows U.S. Economic Assistance, Food Aid and some military grants, specifically, training and transfers of excess equipment. We are trying to obtain comparable French data through 1985 from the State Department. At present, we have only the 1975 - 1984 global economic assistance levels shown on Attachment 2.

Please let me know, if I can provide you with further information.

Sincerely,

Mark

Mark L. Edelman
Bureau for Africa

Attachments (2)
1. U.S. Aid to the Sahel - FY 1975-1985
2. French Aid to the Sahel - 1975-1984

ATTACHMENT 1

U.S. Aid to the Sahel FY 1975-1985
(Source - "U.S. Overseas Loans and Grants" and FY 1987 Congressional Presentation)
($ Millions)

Country	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Burkina											
Econ. Assistance	5.3	1.6	3.4	11.4	15.9	9.2	14.1	11.2	0.3	*	2.8
Food Aid	3.6	3.6	8.1	8.3	9.5	12.2	15.1	6.8	7.2	16.1	6.5
Peace Corps	0.7	1.0	1.0	1.0	1.5	1.3	1.4	1.6	1.4	1.5	1.5
Military Assist.	-	-	-	-	0.1	0.1	0.1	0.1	0.1	*	*
Total	9.3	6.2	12.5	20.7	27.0	22.9	30.8	19.7	9.0	17.7	10.8
Cape Verde											
Econ. Assist.	4.0	1.0	2.3	8.0	2.9	3.1	3.6	3.5	2.2	2.0	2.0
Food Aid	0.1	2.1	3.2	3.4	4.5	2.7	3.0	2.5	2.7	4.5	0.7
Peace Corps	-	-	-	-	-	-	-	-	-	-	-
Military Assist.	-	-	-	-	-	-	-	-	-	-	-
Total	4.1	3.1	5.5	11.4	7.4	5.8	6.6	6.0	4.9	6.5	2.8
Chad											
Econ. Assist.	3.9	2.2	6.6	11.2	4.5	0.2	-	3.7	2.0	11.0	14.0
Food Aid	0.3	0.9	5.3	6.8	6.2	3.6	-	2.5	3.2	5.0	1.4
Peace Corps	0.6	0.8	0.9	1.4	0.7	-	-	-	-	-	-
Military Assist.	-	-	-	-	-	-	-	-	*	2.2	5.2
Total	4.8	3.9	12.8	19.4	10.0	3.8	-	6.2	5.3	18.2	20.6
Gambia											
Econ. Assist.	0.7	*	0.1	1.3	4.5	4.7	5.6	1.2	3.9	3.7	4.6
Food Aid	1.0	1.0	0.7	1.1	0.8	2.0	1.3	1.1	0.4	3.3	0.7
Peace Corps	0.2	0.3	0.4	0.4	0.6	0.8	0.8	0.8	0.8	0.9	1.0
Military Assist.	-	-	-	-	-	-	-	-	-	-	
Total	1.9	1.3	1.2	2.8	5.9	7.5	7.7	3.1	5.1	7.9	6.3
Mali											
Econ. Assist.	13.3	3.8	10.0	10.1	16.6	15.5	14.5	9.6	9.9	11.6	28.5
Food Aid	8.9	0.2	*	5.3	1.4	0.6	-	0.8	4.3	11.1	1.5
Peace Corps	0.5	0.6	0.6	0.7	1.0	1.2	1.4	1.5	1.2	1.6	1.9
Military Assist.	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Total	22.7	4.6	10.6	16.1	19.1	17.4	16.0	12.0	15.5	24.4	32.1

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Country	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Mauritania											
Econ. Assist.	1.7	0.7	1.7	6.0	6.3	2.7	8.5	6.3	5.1	4.9	9.4
Food Aid	2.4	4.1	1.7	2.9	1.7	8.0	6.2	3.4	6.0	7.5	4.5
Peace Corps	0.2	0.3	0.2	0.3	0.7	0.9	1.1	1.5	1.4	1.6	1.5
Military Assist.	-	-	-	-	-	-	*	*	0.1	0.1	0.1
Total	4.3	5.1	3.6	9.2	8.7	11.6	15.8	11.2	12.6	14.1	15.5
Niger											
Econ. Assist.	0.2	7.8	6.7	10.6	10.9	9.5	13.7	13.0	21.0	26.4	25.0
Food Aid	7.8	4.2	0.4	2.8	0.1	1.0	1.4	2.1	0.8	0.5	-
Peace Corps	1.2	1.6	1.3	1.4	1.9	2.2	2.4	2.7	2.3	2.4	2.6
Military Assist.	-	-	-	-	-	-	2.5	2.4	2.5	2.2	5.2
Total	9.2	13.6	8.4	14.8	12.9	12.7	17.4	17.8	24.0	31.5	32.8
Senegal											
Econ. Assist.	6.3	2.1	8.7	8.7	15.0	10.0	14.8	16.2	19.1	34.6	37.1
Food Aid	2.1	2.7	2.9	11.2	5.9	15.1	18.6	12.8	12.3	14.7	4.6
Peace Corps	1.0	1.5	1.5	1.6	1.8	1.9	2.1	2.0	1.8	1.9	2.0
Military Assist.	*	*	8.0	0.1	0.1	0.2	0.2	0.3	0.4	2.5	3.5
Total	9.4	6.3	21.1	21.6	22.8	27.2	35.7	31.3	33.6	53.7	47.2
Sahel Regional											
Econ. Assist.	13.5	9.4	8.9	9.7	7.9	21.6	22.2	33.2	32.7	40.3	22.9
Food Aid	0.1	-	-	-	-	-	-	-	0.2	-	-
Peace Corps	-	-	-	-	-	-	-	-	-	-	-
Military Assist.	-	-	-	-	-	-	-	-	-	-	-
Total	13.5	9.4	8.9	9.7	7.9	21.6	22.2	33.2	32.9	40.3	22.9
Grand Totals	79.2	53.5	84.6	125.7	121.7	130.5	152.2	140.5	142.9	214.3	191.0

* Less than $50,000

Note: "Food Aid" is regular P.L. 480 and does not include emergency assistance, which amounted to about $50 million in FY 1984 and $190 million in FY 1985.

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ATTACHMENT 2

FRENCH AID TO THE SAHEL 1975 - 1984
-$Thousands (Source - Official Development Assistance to CILSS Member Countries in 1983)

Donor	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Total
France	177,194	213,311	186,451	242,944	277,675	319,216	384,068	302,281	317,300	457,900	2,878,834

SAHEL REGIONAL PROGRAM

Mr. **Obey**. The $19 million requested for the Sahel Regional Account in FY87 seems a marginal amount. Can we expect to accomplish very much with this sum? Since we are already demonstrating our support for the plight of the Sahelian nations through bilateral aid programs, couldn't we afford to drop this regional program?

Answer. the Sahel regional program represents approximately 20 percent of the annual Sahel Development Program (SDP) appropriation.

Regional activities serve a unique purpose in that the Sahel regional projects are integral to the overall SDP and perform two essential functions: (1) they address development constraints common to the Sahel region that transcend national boundaries, e.g., human resources development, river basin planning, financial management, policy analysis, oral rehydration, family planning/health, and control of river blindness; and (2) they assist efforts to promote regional economic cooperation by strengthening selected Sahelian regional institutions, e.g., the Permanent Interstate Committee for Drought Control (CILSS), the river basin development institutions (OMVS, OMVG and NBA) and the agricultural, hydrological and meteorological institution (AGRHYMET), which has its regional center in Niamey and national centers in the eight Sahelian countries.

In addition, the regional approach helps to avoid duplication and competition among specific regional interests, fosters intra-African cooperation, encourages donor coordination, and exerts influence on general Sahelian development.

SAHEL DEVELOPMENT PROGRAM

Mr. **Obey**. The nations of the Sahel are generally former French colonies. Why don't we leave it to France to provide for their economic development?

Answer. France is the major donor in the Sahel, especially in six of the eight countries which are Francophone. From 1975-1984, France contributed $2.9 billion in economic assistance or an average of $290 million a year. During the same period U.S. assistance was only $1.2 billion, an average of $120 million a year.

Because the amount of assistance required is beyond the resources of any one donor, many other bilateral and multilateral donors need to help and have assisted the Sahel over the past 10 years. Also, the U.S. has particular interest in the Sahel, mainly humanitarian but also political. For example, the U.S. wishes to help certain countries, like Chad, to maintain their independence against Libyian expansion. The U.S. would also like to assisst those nations, like Senegal, which have effectively functioning democracies and which are undertaking serious economic reforms.

Question. The AID Congressional Presentation mentions the Libyan threat to the Sahelian nations as one justification for the Sahel Regional Program. But isn't France the country that is taking the lead in defending Chad and other Sahelian countries from Libya? Why don't we rely on France to provide for the security of the Sahel?

Answer. France has taken the lead in defending Chad and other Sahelian countries from Libya, but it cannot shoulder such a burden alone. There is a need for supplemental assistance from other western countries, including the U.S., to meet the twin threats of Libyan-inspired internal subversion and direct Libyan military aggression. Our combined developmental and security assistance effort responds to both the threat of direct Libyan military aggression, as in Chad, and the threat of Libyan-inspired subversion in pro-western states such as Niger and Senegal.

We agree with important moderates such as President Diouf in Senegal and President Kountche in Niger that economic development assistance is critical to their efforts to ward off Libyan-inspired subversion within their own countries. At the same time, we cannot ignore the legimate security needs of these vulnerable pro-western states. While France remains the Sahel's primary security guarantor and arms supplier, U.S. security assistance provides modest, but often critical, support in such areas as transportation, U.S. weapons and provision of spare parts.

Mr. **Obey**. In your view, can the economic development problems of the Sahel ever be solved? Does the region have the agricultural and other resources ever to support its peoples? Is our aid to the Sahel a sort of perpetual welfare program?

Answer. U.S. economic assistance to the Sahel is intended to develop in concert with other donors a sound base for long-term economic growth within the eight Sahelian countries as well as the region as a whole. At present, A.I.D.'s strategy calls for the combination of project and non-project assistance, buttressed by food aid, aimed at increasing food production in order to achieve by the end of the century food self-reliance on a regional basis. Our continuing assistance is based on a recognition of the region's potential to feed itself and possibly even to export food over the long term.

The economic development problems facing the Sahel, while not insurmountable, are certainly some of the most difficult in the world. Their solutions necessitate a long-term, systematic approach with increasing emphasis on agricultural research, irrigation, human resource development, family planning, infrastructure and institution building. Equally important is the need for countries to undertake economic reforms which will provide the type of environment conducive to increased food production. It is to address theis concern that A.I.D. has within the past year begun to implement economic assistance programs to encourage the liberalization and eventual privatization of major elements of the economies in the Sahel.

Because of the severity of the problem, success in the Sahel has been limited so far. However, it is notable that, despite a continuing and, in some cases, worsening drought, the Sahelians were better able to manage their scarce resources and avoid mass starvation, unlike other parts of Africa. Also, we see very promising developments beginning in policy reform, family planning, small-scale irrigation, training and private sector development.

Mr. **Obey**. We are having our second motion to table. I guess we are now doing everything twice over there, so that I will have to leave in another minute, and I will be back as quickly as I can.

ENVIRONMENTAL DEGRADATION IN AFRICA

One of the most depressing things to me has been to read over the last two or three years all of the negative pieces that have been written about what Africa together with outside advice have done to screw up their environment and create significant problems because of that, in terms of the ability to produce food and function sensibly.

In light of the World Watch Institute's statement that more than 40 percent of Africans live in countries where the productivity of the land is lower today than it was a generation ago.

DONOR COORDINATION

And I would just ask you, how long do you think it is going to be before we have a really decently coordinated international bilateral and multilateral approach to environmental degradation problems?

Mr. **Edelman**. I do not think that I can answer that, Mr. Chairman. I know what the thrust of your question is and I would like to be able to give you an answer not only for that, but also for a world-wide approach to the whole development problem in Africa.

And getting everybody on board with the same kinds of answers or the same kinds of policy directions.

I agree it is not just a problem with environmental affairs, it is on all kinds of affairs. One of the main problems that we have had in Africa—it may also be the same elsewhere—has been the multiplicity of voices offering advice to Africans and to each other, some of which have proven to be dead wrong and very bad. And some of which have proven to be very right and very accurate.

In the past, we have done some of it ourselves. The World Bank has done some of it, and the International Monetary Fund has done some of it, and other donors have done some of it. Some donors care more about the problems than others do and some treat their aid programs more as what I keep calling a WPA project, as in WPA in the thirties, just supporting exports and not really caring much about development.

And Africans have invested in "bum" projects. Various donors have thrust bad projects on them that they should never have thrust on them for a variety of domestic and political reasons and some of them are still doing it.

Those are all problems in donor coordination. Everybody has a somewhat different agenda. Some are more interested in African development than others are.

I am absolutely convinced of that and not just because I am sitting here. I think that we care more about African development and—I may get into some trouble for this—African development per se, than most of the other donors really care about African development per se and the development of Africa. That is all that we care about. We are not as interested in holding on to our bases there—we do not even have bases there. We do not have any self-interests in most of Africa. We are not even a colonial power in Africa.

I think that we have the most altruistic foreign aid program of any nation in the world. That does not mean that it is entirely altruistic; I do not mean to say that. But I think that it is more so than any country in the world, and if we go around from donor to donor, some share our beliefs in certain countries and do not in others. It is a constant battle of getting people on board—sometimes us as well—because we have a slightly different agenda than somebody else does. It is a horrendous problem and the World Bank is beginning to take a more aggressive role. Donor coordination has to come primarily from the Africans themselves. The World Bank says that and I absolutely agree. That is who has to do it. The Africans themselves have got to set the priorities,

The World Bank is beginning to grab ahold of that in light of the Africans not doing it. The World Bank has to do it. We cannot do it. We have got our own agenda, as I said, and at least the World Bank is viewed a bit neutrally. And the World Bank is grabbing on to that. The consultative groups are being strengthened and they are doing more of them in Africa and the Bank is moving out in that regard.

Mr. **Obey**. I am going to have to go and vote.

[Whereupon a brief recess was taken, at 3:17 p.m.]

Mr. **Obey**. The Subcommittee will come to order.

I apologize for the interruption. Let's talk about Mozambique, we have the President telling us that we ought to be supporting Mr. Savimbi Angola.

AID TO MOZAMBIQUE

Why, in light of that position are we asked to provide any degree of aid, whatsoever, to Mozambique?

Secretary **Crocker**. Mr. Chairman, we see the situations in Mozambique and Angola as being fundamentally different in a number of respects. It is the Administration's policy that we are seeking to advance our goals and our interests through means that are appropriate to each country's situation.

For example, in the case of Mozambique, there are no foreign combat forces based there. The government of Mozambique has made very strenuous efforts to reach an accommodation with

South Africa, which would lead to a reduction in cross-border violence. The government of Mozambique has taken steps to open up its own private sector; to channel resources, specifically including ours, to the private sector in terms of agricultural inputs, which is what our CIP program principally focuses on.

So we are seeking to help encourage the Mozambique government to move towards genuine nonalignment, peace with its neighbors, strengthening of its private sector, and scrapping of a failed economic model in that country. We have seen some clear improvement in our bilateral relations and we are committed to trying to maintain that path.

ANGOLA: U.S. ROLE VIS-A-VIS THE SOVIETS

The situation in Angola is a very different one, as you know. There you have a very heavy presence, not only of Cuban combat forces, but of, more broadly speaking, a Soviet presence. You have an internal civil conflict with a movement that is, indeed, a legitimate nationalist movement, that is UNITA. We do not consider RENAMO to be such a movement.

Mr. **Obey**. You think Mr. Gorbachev is an activist or more of a passive personality in international affairs?

Secretary **Crocker**. Well, we are all watching with great interest to see how that shapes up. I do not think that we have the answers yet, Mr. Chairman, but clearly he is a younger and more vigorous person than some of his recent predecessors.

Mr. **Obey**. I would say if he is passive in international affairs, it would be about the only thing that he would be passive in.

Does the Administration really think that the Soviet Union would roll over and allow us to directly fund Mr. Savimbi without the Soviets returning in kind and upping the ante either there or elsewhere on the African continent?

Secretary **Crocker**. We look at this question of Angola historically, Mr. Chairman. It was, in fact, in Angola that we saw the final nail in the coffin of detente back in the seventies over the Soviet exploitation of that situation back when the Portugese were leaving. And the Soviets have to understand that, in so far as their pattern of seeking unilateral advantage in these regional conflicts continues, it is going to have consequences for our bilateral relationship overall. I think that is the message of the President's policy.

We do not have any apologies to make in Angola. We have been working hard for peace for some five years there and we have credible proposals on the table. We intend to continue——

Mr. **Obey**. I am not suggesting that anybody make any apologies. I had two discussions myself with the Soviets on Angola and we did not make any apologies either. But I am simply asking whether the Administration really believes that the Soviets will not respond if we provide direct assistance to Savimbi?

Secretary **Crocker**. Well, I think that we look at it from the standpoint of what has been happening in the last couple of years. We have seen some progress on the diplomatic track and we have seen the Soviets apparently encouraging the Angolan government to abandon that course just as they have fueled the recent escalation with the provision of several billion in recent hardware.

I am not sure that that situation could absorb a whole lot more than that. That is a great deal of hardware by the standards of an African conflict, so I think what we are trying to say is that we are not going to have our negotiations used as a cover for the pursuit of a purely military approach to that problem.

I cannot predict what the Soviets will do but they have already done a great deal.

ETHIOPIAN RESETTLEMENT

Mr. **Obey**. What is the status of the Ethiopian government's resettlement program?

How many people have been relocated to the south?

Mr. **Edelman**. The latest figures are around 600,000, Mr. Chairman, that they have relocated. Numbers are hard to come by. The Ethiopian Government admits to the fact that they are trying to relocate about 1.5 million people and the estimate is about 600,000 so far.

Mr. **Obey**. Is it still the position of the Administration that the Ethiopian government is conducting a deliberate policy of starvation?

Mr. **Edelman**. It has never been our position that they are conducting a deliberate policy of starvation. The position of the Administration is that the results of a lot of their actions have led to starvation. That is what the President certified to, I believe, in August of last year. I have forgotten exactly when, but it was some time last year.

ETHIOPIAN REFUGEES IN SUDAN

Mr. **Obey**. How many Ethiopian refugees in Sudanese camps?

Mr. **Edelman**. I know that we have that estimate, Mr. Chairman. Would you like us to look it up for you now, or get it for you?

Mr. **Obey**. You can supply that for the record.

Mr. **Edelman**. We will be glad to supply that for the record.

[The information follows:]

Ethiopian Refugees in Sudan

The number of Ethiopian refugees in Sudan changes continuously since there is constant movement across the border in both directions.

However, our latest estimate is that there are approximately 750,000 Ethiopians living in Sudan. Of those, approximately 450,000 are receiving some form of assistance in camps.

Mr. **Obey**. I have a number of other questions which I would like to simply put in the record, since I am out of time.

Questions for the Record Submitted by Mr. Obey

ANGOLA/UNITA

Question. What will the total cost be, in dollars and other U.S. involvement with UNITA, in order to get the Angola government to move in the direction we want to see them go?

Answer. We intend our involvement with UNITA to be both prudent and effective. Our goals are not unlimited, and neither need be the means we use to achieve them. We want a negotiated settlement which will bring Namibia to independence in accordance with UNSCR 435 and which will bring about Cuban troop withdrawal. Reduction of the outside involvement in Angola's internal problems will set the stage for Angolans to resolve them among themselves, as they see fit. We are not seeking to overthrow the Angolan government, and neither is UNITA. Rather, it seeks talks to bring about a reconciliation in which all significant political groupings can take part. UNITA is one such group. It has been fighting for 10 years to be part of the Angolan political system, and it appears determined to continue the struggle for as long as necessary. Our interests are not served by continuation of turmoil and armed conflict, which creates an environment in which the Soviets thrive. But, ultimately, it is the MPLA which must have the political will and courage to choose the path of peace.

Question. What impact will our support for UNITA have on our relations with other African countries?

Answer. We pay great attention to the views of our friends in Africa. For example, at the recent Palme funeral in Stockholm, one of the three bi-lateral meetings Secretary Shultz had with other attendees was with Zambian President Kaunda.

While the public reaction to US support for UNITA has not been positive, on this, as on many other issues, one must look beyond the publicly stated positions.

Some African states have told us unofficially that they share our view that a Cuban military presence in Africa is unwelcome. Many also believe that real peace in Angola cannot come until the MPLA makes its peace with UNITA. We cannot expect public support from African states for our aid to UNITA, but based on what we have heard thus far, we do not expect our bilateral relations with them to suffer.

Question. Will this policy increase or decrease Soviet activity in Angola?

Answer. The Soviets have sent almost $4 billion or military equipment to Angola since 1976. As long as the MPLA believes a military solution to its problems is achievable, it will remain close to the Soviets and Cubans. However, our policy for Angola/Namibia is based on the understanding that military solutions are not viable. A negotiated settlement on the independence of Namibia under UNSCR 435 and the withdrawal of Cuban troops from Angola is the only way to attain real peace in that region. The withdrawal of foreign forces from Angola and Namibia will help the Angolans work out a solution to their internal problems themselves.

If the MPLA wants peace we are ready to help. If it chooses instead to continue to try to solve its domestic problems by military means, it may cite reports of U.S. assistance to UNITA as an excuse for retaining Cuban troops. But the real issue is not whether or not there is U.S. assistance to UNITA. Rather, it is whether the political will exists in Luanda to seek a negotiated regional settlement.

LONG-TERM AFRICAN DEVELOPMENT/IDA

Question. What is your view of U.S. participation in the special facility?

Answer. The World Bank's Special Facility for Africa is an excellent initiative with an important role to play in Africa as a complement to bilateral programs. We support its focus on policy reform and quick disbursing balance of payments support—objectives which we are also pursuing through our various bilateral programs, including African Economic Policy Reform Program (AEPRP).

At the initiative of Congress, we made a direct contribution to the Special Facility for Africa in FY 1986 of $71.8 million. While this money will be put to good use, we would have preferred that the U.S. participate in the Special Facility through joint financing arrangements, such as those now employed by Great Britain, Japan and other donors, rather than through direct contributions, as is the case now. Such a joint financing arrangement would have allowed the United States to direct its contributions to countries of specific interest, while at the same time ensuring that the United States received full credit for each disbursement.

Question. Do you agree with Mr. Eagleburger's statement on IDA?

Answer. Mr. Eagleburger is, of course, right to emphasize the importance of the International Development Association. It is the single largest source of development finance for least developed countries, and has played a particularly prominent role in Africa in shaping the direction of economic reform strategies.

Recognizing this fact, we have sought to play the leadership role recommended by Mr. Eagleburger both in efforts to improve the operational effectiveness of IDA VII credits and in the negotiation of the IDA VIII replenishment. At reviews of IDA VII, and, more importantly, in Executive Board reviews of individual country program decisions, we have sought to ensure that IDA resources should be focused on growth and policy reform, contingent upon performance, and directed to the least developed countries, particularly those in Africa, whose access to other sources of finance is strictly limited. We have been pleased to see these efforts rewarded with a gradual shift in IDA resources towards Africa, and within Africa, towards policy-based lending instruments (sectoral and structural adjustment loans) which can support the process of change now taking place in Africa.

We re-emphasized these positions in January at the first negotiating session for IDA VIII. Moreover, following up on Secretary Baker's proposal for a joint facility to support adjustment and reform among the LDC's, we recommended that IDA consider programming incremental IDA VIII resources in combination with IMF Trust Fund resources in support of comprehensive country policy programs that would be jointly developed by the IMF and World Bank. This proposal received general support from the IDA Deputies.

Question. Although I know Treasury deals directly with IDA, is it your judgment that the administration's position on the IDA VIII replenishment will be consistent with this view?

Answer. At the IDA Deputies meeting in January, the United States delegation indicated that the United States was prepared to consider an IDA VIII replenishment in the range of $9 billion to $12 billion. The delegation also noted that we were prepared to make every effort to secure a replenishment in the upper end of this range, if United States objectives regarding the use of these funds were obtained. We believe that a replenishment in that range would be sufficient to allow IDA to continue to play its leadership role in the developing world in general, and Africa in particular.

[From The Washington Post, Feb. 4 1986]

AFRICA: "HANDOUTS" DON'T WORK

(By Donald McHenry and Lawrence Eagleburger)

The rains have fallen on most of those areas of Africa that were hardest hit by drought, but rain alone is not resolving the crisis that the people of Africa confront. The draught has only accelerated the pace of declining living standards in that part of the world, but the decline has been going on for more than a decade.

Today per-capita incomes in much of Africa are lower than they were 25 years ago. The continuing decline in living standards in generating social and political unrest in a region noteworthy for its political tensions, and, as such, is a major area of East-West confrontation.

From Cape Town to Khartoum, East and West have distinct foreign policy interests, in recent times the Western industrial nations have one considerable good will in Africa. The reason for this is that in Africa's hour of need it has been the West, not the Soviet bloc, that has sought to help with emergency aid, long-term economic assistance and sound economic policy advice.

But while the political stability of Africa is a matter of national self-interest for the United States, and indeed a factor in assessing global security, it is a goal that will not be easily reached. We have to face the grim realities of modern Africa, recognizing that the rains are doing no more than slowing the drop in living standards, not reversing this bitter trend. Only with major external support and with firm political resolve by the governments of Africa is it likely that per capita incomes in this region will stabilize by 1990. Only then will there be hope of some actual improvement in living standards in the final decade of this century.

The critical element in stabilizing the economic situation and here we are talking about nothing less than seeking to end chronic malnutrition for tens of millions of Africans, as well as reviving economic activity—is the will of African leaders to come to grips with their domestic troubles and the things that cause those troubles. Leaders have to recognize that they must put policies into place that stimulate production, create jobs, enable farmers to grow more food and generate savings for investment. In many countries the decision to change policies is fraught with political risks—risks that must be taken.

It is very much in our own self-interest to help the governments of Africa take those risks. Simply stated, this means we can help the government reduce the risks by providing them with external support. This should not be "handouts," or money to build another vast congress hall, sports stadium or oversized airport. Africa has already got far too many "white elephant" projects.

The support we give must be money directly linked to policy reforms in the recipient countries and specifically earmarked for high-priority investments that will have high rates of return. In other words, the cash we provide must be tied to programs the will raise living standards. They must be carefuly planned and monitored to make certain they are used for the designated purposes and not to make rich people richer.

It is interesting to note that one of the little-noticed acts of Congress before the last Christmas vacation was directly concerned with providing this sort of support. Congress approved an appropriation of $75 million as a U.S. contribution this year to a special financing facility for Africa managed by the World Bank that is designed to support just such meaningful policy changes. The United States was reluctant to join this venture a year ago when 21 countries endowed the special fund with $1.3 billion.

Congress has rightly recognized that if we want to tie aid to policy reform and ensure that aid is used in a leveraged manner in delicate political areas, then a good way of doing it is to push the case through proven and effective multilateral channels such as the World Bank, rather than through bilateral vehicles such as USAID, which are often perceived to be influenced by foreign policy issues. Congress, foreseeing the Gramm-Rudman-Hollings bill, mandated that the administration transfer the $75 million contribution to the World Bank by Dec. 31, 1985. That the administration has not done this raises certain legal considerations. We can only encourage it to transfer these badly needed funds soon.

But this special facility for Africa, which now appears to be working and generating the stimulus for important policy reforms in a growing number of African nations, has a life span of just three years. It was a response to an emergency, and, wisely, most industrial governments are reluctant to create yet another international bureaucracy. The aim of most donors to the facility is that its work should be continued by the International Development Association, the concessional lending affiliate of the World Bank.

In January the 34 governments that provide funds to IDA started negotiations on the future funding of IDA. Last time around, these governments agreed upon $9 billion for three years to go through IDA to the very poorest countries in the world. The new agreement, will be for the three years beginning July 1, 1987. The amount needed this time around will inevitably have to be greater if IDA is to assume the role of the African facility as well.

IDA represents an important instrument for African development strategies that directly serve U.S. interests. It is critical that the United States go to these negotiations in a spirit of leadership concerned with strengthening IDA and its future role in Africa in particular.

The fact is that the dramatic population growth in Africa, the mounting ecological pressures, the very heavy debts of most African countries and the murderous impact of the recent drought, are all being accompanied by an actual decline in long-term capital flows to the continent. This must be reversed if the governments of Africa are to come to grips with their awesome problems. U.S. leadership in ensuring such a reversal will not only be of great humanitarian importance but will also heavily influence long-term security interests for the West.

FAMINE NEEDS

Mr. Obey. Mr. Edelman, last year Congress largely ignoring low estimates and small requests for emergency food, supplies, and transportation, provided substantial amounts of assistance in response to the devastating famine in Africa.

Mr. Edelman, isn't it true that all the funds Congress provided were used and that additionally AID "borrowed" funds from its development accounts for this purpose?

Mr. Edelman, the administration emergency request last year was for $50 million, half for disaster assistance and half for the Emergency Migration and Refugee Assistance Fund. In total, from all sources, how much will AID have spent responding to the crisis by March 31st?, (Congress provided $175 million instead of the requested $50 million) (Four sources of funds (1) "borrowed D.A., (2) disaster assistance, (3) migration and refugee assistance, (4) the Emergency Migration and Refugee Assistance Fund—plus P.L. 480.)

Answer. By March 31, 1986 we will have obligated $214.8 million for non P.L. 480 food assistance as follows:

	Millions
Supplemental disaster assistance	$137.5
Borrowed from DA account	26.4
OFDA account	13.4
Emergency migration and refugee assistance [ERMA] replenishment	25.0
Refugee assistance	12.5

All of these funds were obligated by March 31, 1986 and about half have been spent. Most of the remainder will be spent during FY86 though some activities will carryover into FY87.

Mr. OBEY. Can you tell us why the administration was so incredibly far off in its request and original assessment of emergency needs? Don't you agree that it was extremely fortunate that Congress had the wisdom to provide more than three times what was requested?

ANSWER. The Administration originally requested $25 million for a disaster assistance supplemental. Our assessment of the need and a review of the total resources available to the agency that could be used to respond to the African emergency indicated that this request would be adequate. OFDA had $25 million available in the disaster assistance account that could be used for emergency relief and recovery activities in Africa and we had borrowing authority for an additional $50 million from the development assistance account that could be drawn down if the OFDA disaster assistance and supplemental were not sufficient.

In fact, the rate of obligations for non-food disaster assistance in FY 1985 have supported, we believe, those initial estimates. Though $137.5 million was available in the supplemental, only about $70 million was obligated during FY 1985 to meet the emergency situation. Thus, the planning level of $100 million ($25 supplemental, $25 disaster assistance, $50 borrowing authority) would have been sufficient.

Mr. OBEY. What have you done to improve your projections so this won't happen again?

ANSWER. As we gain additional experience with droughts and the famines they have produced, we are able to improve both our planning capabilities and our response mechanisms For example, our experience with the Sahel drought of 10 years ago enabled us to respond more quickly there than in Sudan where famine was a newer phenomenon and in Ethiopia where we had more experience but were confronting a much changed system of government.

We have also instituted new procedures and systems that should provide us with much more accurate and timely data for planning for future emergencies.

Though we cannot predict with 100% accuracy whether or not there will be a drought, the early warning system now in place is capable of integrating precipitation, cropping and social factors to predict famine at the earliest possible moment. As a result, we can identify the signs that famine may be occurring and respond faster, deal with the logistics problems more effectively and provide food, money and people to address the problems much earlier than before.

In Sudan, for example, we are financing an early warning system with the Ministry of Agriculture and the other donor agencies that has already helped us identify the areas that will be in greatest need of assistance this year. We were able to target our assistance to parts of those areas and to work with the other donors to assure adequate coverage for the rest of the region identified.

Through collaboration with the other donors and the host governments, we have greatly improved the food needs assessment process and estimates of food requirements are now much closer together.

Because of the early warning systems and the collaboration with other donors,we are able to schedule the shipment of commodities more efficiently and identify some of the major bottlenecks in transport and logistics that plagued the program. For example, in Ethiopia we have already shipped 90% of the food aid that we are committed to provide this year. In Sudan, we have already prepositioned over one-third of the 200,000 metric tons committed for Western region and anticipate 80 to 85% prepositioned before the rains start in July.

Mr. OBEY. Recently, I have seen articles stating that emergency food assistance will be needed again in Ethiopia and parts of Sudan this year. What is the administration's projection of food and other emergency needs this year?

ANSWER. Africa's drought-related emergency food needs in 1985-86 are reduced considerably over 1984-85. The United Nations and A.I.D. agree that the most seriously affected countries this year are Angola, Ethiopia, Mozambique and Sudan. In addition to the impact of drought, all four countries suffer from civil disturbances and, in three of the four, from national policies which discourage agricultural production.

A number of other countries will need some emergency food aid assistance in 1986 as they recover from the impact of the drought in 1985. Mali and Niger are included in this group.

In FY 1985, the U.S. supplied 1.8 million MT of emergency food aid, valued at $776 million to more than 20 countries in Africa.

Thus far in FY 1986 the U.S. has supplied 486,000 MT of emergency food aid, valued at $210.3 million, to fewer than 10 countries. It is likely total FY 1986 emergency food aid approvals will be under 600,000 MT, or only one-third last year's amount. More than half the total will be for Ethiopia. This is an accurate reflection of the dramatic reduction in the need for emergency food aid in sub-Saharan Africa this year.

Requests for non-food emergency needs are also reduced considerably. Most programs approved in FY 1986 (from the supplemental) have been for logistics infrastructure (through road repair and improvement), or for recovery items such as seeds and agricultural tools, and for the purchase and transport of locally-procured surplus cereal grain. No support for airlift, for example, is contemplated at this time, although the situation particularly in Sudan—is under continual review.

FY 1986 FY 480 TITLE II EMERGENCY FOOD AID PROGRAMS

[As of Apr. 4, 1986; dollars in millions]

Country	Metric tons	Value
Angola	12,240	$4.5
Cape Verde	2,000	1.4
Ethiopia	277,560	116.0
Ethiopian refugees	45,000	15.1
Mali	34,420	12.2
Mozambique	55,418	16.2
Niger	15,182	8.8
Somalia	32,000	12.3
Sudan	12,496	[1] 23.8
Total	486,316	210.3

[1] Includes $15.9 million for internal transport of 1985 title II emergency food aid.

SOUTH AFRICA

Question. Secretary Crocker, you recently stated that the United States supported majority rule in South Africa. Is the Administration strategy of "constructive engagement" one that maximizes U.S. pressure on the South African regime to establish a democratic government in that country? Could we be doing more?

Answer. We believe our policy effectively maximizes our influence on behalf of constructive change inside South Africa. Our policy mixes pressure and a willingness to listen to all sides so that we can encourage peaceful remedies and negotiation as solutions to South Africa's political crisis. Isolating South Africa, or punishing it with harsh sanctions, will lead to greater violence and polarization inside the country, hardly a desirable outcome from anyone's point of view. We believe that majority rule is inevitable and desirable in South Africa, and that our policy is the most responsible way of encouraging this outcome nonviolently and in such a way that the rights of all South Africans are protected.

Question. Black South Africa youth, in particular, have become radicalized. Has the Government made any attempt to meet the needs of these largely unemployed and undereducated young people? What kinds of initiatives could be taken, in addition to the broader moves toward an egalitarian society, to get at the roots of their dissatisfaction? What has our advice been to the government on dealing with the serious problem of disaffection of black youth?

Answer. The problem of unemployment and under employment has increased in South Africa in recent years. It traces to the most serious recession in South Africa since the great depression of the thirties. It has been exacerbated, however, because of apartheid policies that have provided poor opportunities for young black people to equip themselves for roles in an industrial economy and made radical solutions seem more attractive to them. We have urged the South African Government to divert more public expenditure away from military and apartheid-related accounts to educational and training programs. Our own aid program focuses on this problem as well, through scholarships, upgraded teacher training and entrepreneurial development.

Question. President Botha and his government have long maintained that Soviet-sponsored subversion has been the underlying cause of the unrest. What have our intelligence reports told us about Soviet activity in South Africa?

Answer. The Soviet Union profits from the violence and instability in South Africa as elsewhere in the world. Through its links with the African National Congress, it provides military equipment that is used for violent purposes in South Africa. The Soviets also have formal links to SACTU, the official labor union of the ANC. The Soviets are, of course, hoping for upheaval in South Africa because such a scenario increases polarization and favors its manipulative ends. That said, it would be wrong to regard the Soviet Union as behind events in South Africa or as the primary source of instability. Apartheid is the central problem in South Africa.

SUDAN

Question. Sudan is one of the poorest countries in the world with a GNP per capita of $400 per year and has been significantly affected by the famine and refugee crises. Why then has the administration failed to increase development assistance while proposing significant increases in both military and ESF funding?

Answer. The proposed amounts are not significant increases but rather a return to historical levels after this year's (FY 86) unprecedented cut. Given the escalation in fighting in the South, which is heavily supported by Ethiopia, Sudan's defense needs have not diminished. As Sudan's debt and balance of payments pressures increase, ESF remains essential to help maintain Sudan's links with the international financial community. To address the famine and drought crises, we have relied on special emergency relief funds which are not shown in the table. In FY 85 these funds amounted to approximately $200 million and provided food and rehabilitation projects to repair drought damage. To speed up recovery from famine and promote long term development, ESP AND PL 480 resources are being closely integrated with development assistance and directed to the rainfed agricultural sector in western SUDAN. Both ESF and PL 480 resources will be used to effect sectoral policy changes, purchase commodities, and provide local currency in direct support of the rainfed agricultural sector initiative. Up to now we considered development assistance, which focuses more on long term projects, less appropriate for such an immediate need.

Question. Did the new government in Sudan request additional ESF and military funding?

Answer. This year, as in previous years, the Sudanese government requested across the board increases in funding.

Question. What is the status of Sudan's political relationship with Libya?

Answer. One could characterize Sudan's political relationship with Libya as that of a weak country making accommodations with a dangerous neighbor.

Sudan restored relations with Libya last year shortly after the fall of Nimeiri. A major reason for this was to stop Libya's support for the southern insurgery. Last July the Sudanese defense minister signed a military protocol with Libya whereby Libya promised to provide various kinds of military assistance and training. After the fall of two garrisons, the Sudanese government requested Libyan military assistance to help Sudan contain the insurgery.

We have warned the military government that its request for Libyan assistance brings with it a grave danger of further polarizing the war in the south along racial lines. We have also noted that such assistance runs a risk of alienating Sudan's traditional friends such as the United States and Egypt.

A new civilian government will come into office April 26. We hope that the government will, in the process of taking office, review its predecessor's request for Libyan intervention in the civil war.

Question. Do Sudan's improved relations with Libya decrease Sudan's need for larger amounts of U.S. military assistance?

Answer. We are studying what affect Sudan's improved relations with Libya will have on our military assistance. As the southern insurgents have learned, Libya is an unfaithful and mercurial friend. Also, although relations with Libya have improved, the Ethiopian backed insurgery in the south has escalated greatly.

SUDAN ECONOMIC POLICIES

Mr. Obey. Mr. Crocker and Mr. Edelman: In both 1984 and 1985, the Administration briefly suspended assistance to Sudan in order to force the GOS to implement economic reforms (Nimeiri's ouster occurred on 4/7/85 after a rise in food prices). What reforms have been accomplished and what economic advice is the administration currently given Sudan? How is the new government responding to U.S. economic advice given the food riots which led to Nimeiri's ouster?

Answer. Economic Support Fund assistance was held up briefly in both 1984 and 1985 while A.I.D. waited for the Sudanese to live up to the terms within our agreements governing these programs. Development Assistance, emergency drought relief and PL 480 assistance, however, continued uninterrupted throughout this period.

USAID works with the Government of Sudan (GOS) to develop and implement economic measures at both the macroeconomic and sectoral levels. Over the past year the GOS record in implementing macroeconomic reforms has been mixed at best and in some cases regressive. USAID worked with the GOS in areas such as pricing structures for petroleum, bread and flour products and producer price increases for wheat, gum arabic and sesame through PL 480 Title I and the Economic Support Fund programs. The mixed performance is due in part to the fact the transitional government has been preoccupied with stop-gap measures oriented toward election and post-election stability in urban areas and the insurgency in Southern Sudan.

At both the ministerial and community levels, the Sudanese response to regional and sectoral measures recommended by the USAID has been more positive. For example, the GOS has been quite receptive to including such measures as the establishment of systems for local utilization of tax revenues and community authority for land and water use in one of our major projects in Western Sudan.

The newly elected government takes office at the end of April 1986 and will be reviewing many of the present economic measures. USAID will work with the new government. It is difficult to predict with precision the economic policy environment after the elections. However we believe it will not move quickly to make dramatic macroeconomic reforms.

Question. What is the status of the war in southern Sudan? Is it still holding up the development of oil resources in this area?

ANSWER. After a lull from October to November, the fighting escalated dramatically in late December. Several government garrisons have fallen to the insurgents, and fighting has spread to all three southern regions. The government and the insurgents now seem to be girding themselves for a major battle over fallen garrisons near the provincial capital of WAU.

Of course, under these circumstances the development of oil resources in the south has ceased. Companies with concessions in the south have reduced their staffs accordingly.

PERCENTAGE OF U.S. ASSISTANCE TO SUDAN

Question. Mr. Crocker, in the 1987 request, approximately 20 percent of all U.S. assistance proposed for 45 countries in Africa is proposed for Sudan. How do you justify that heavy an investment in a single country?

ANSWER. As I said during the hearing, Sudan is Africa's largest country and it is a crossroads between Arab and black Africa. We have a number of different kinds of interests there related to the Middle East situation and to the stability across the Red Sea; neighboring relationships between Sudan and the Saudis as well as between Sudan and the Egyptians along with our important interests in the Horn of Africa. It is a country that has a long tradition of humanitarian excellence, receiving refugees from across borders; receiving them openly and generously.

We have many interests there.

ENVIRONMENT

Mr. OBEY. Mr. Edelman, Environmental degradation is a massive problem in Africa which exacerbates the Africa debt and population problems. The recent Worldwatch Institute study, State of the World 1986, states:

"More than 40 percent of Africans live in countries where the productivity of the land is lower today than it was a generation ago. 'Africa was forced to import 29 million tons of grain last year.' "

Mr. Edelman, Why isn't there any coordinated international bilateral or multilateral program aimed primarily at addressing environmental degradation problems in Africa?

ANSWER. The Bureau for Africa of the Agency for International Development (A.I.D.) has long recognized the need for better coordination among donors working in Africa.

In the area of natural resources and environmental programs where African host country capability is still relatively young, weak and inexperienced, this problem can be acute. Fortunately, however, many of the donor programs to address environmental degradation came on-stream at roughly the same time. From the outset, exchange of information and cooperation among donors and with the African countries themselves, leading to program coordination has been an important feature of these programs.

Perhaps the best known and most successful is the Club du Sahel, a mechanism put in place as a result of concern for Sahelian African development and desertification problems by the member nations of the Organization for Economic Cooperation and Development (OECD). The United States has been particularly supportive of that organization over the years and indeed, A.I.D. staff have been seconded to work there. The Club due Sahel has its national government parallel in the Interstate Committee for the Fight Against Drought in the Sahel (CILSS). Here again staff resources and significant levels of funding have aided the CILSS to coordinate programs at the regional level. The OECD itself through both its Environment and African Development Committees has also served this function.

Another coordination mechanism in which the United States participates is the Cooperation for Development in Africa (CDA) group. The CDA group brings together the seven major bilateral international assistance agencies (France, Federal Republic of Germany, Belgium, Canada, United Kingdom, Italy, and the United States) under the CDA Forestry/Fuelwood Technical Committee to exchange information and experience and to foster cooperation on forestry development activities in Africa. This committee is chaired by the Senior Forestry Advisor of A.I.D.'s Bureau the Africa. At the last meeting of the committee held in Oxford, United Kingdom in June 1985, the group indicating its satisfaction with the successful and collegial nature of its endeavors, reguested that the chairman invite other prominent donor agencies with forestry programs in Africa to participate. This has been done and at the next meeting of the CDA Forestry/Fuelwood Technical Committee to be held in West Germany in May 1986, participation of the Governments of Switzerland, Sweden, Finland, Norway and The Netherlands is expected.

Two other regional African groups which coordinate national programs also have forestry/natural resources working subgroups. These are the Southern Africa Development Coordination Conference (SADCC) and the Intergovernmental Authority on Drought and Development (IGADD); the latter services the Horn of Africa. A.I.D. has close ties with both these groups and has suggested that they could profit by following the Club du Sahel/CILSS example.

The United States, because of its importance as a major donor to the United Nations system, also has close ties with many of the agencies of that system. We have for years participated, for example, in the UN Round Tables convened by the United Nations Development Program (UNDP) to coordinate efforts in individual countries. More specific to natural resources, A.I.D. has been a full participant and supporter of the Tropical Forestry Action Plan recently elaborated with World Bank and UNDP assistance. Likewise the United States has actively taken part in the United Nations Environment Program (UNEP) Consultative Group for Desertification Control.

As you will appreciate donor coordination is an important part of our program to address environmental degradation problems in Africa. To-date the reaction to our own initiatives among the other donors has been positive and the United States is often looked to for leadership in the field of natural resources management in Africa.

LEGISLATION ON ETHIOPIA

Question. What is the current status of the Ethiopian government's resettlement program?

Answer. According to the Ethiopian Government, the program is temporarily halted. The Ethiopian Government has admitted that it made mistakes in implementing the resettlement program. They attribute this to too hasty planning and to excesses committed by overzealous officials. The program has now entered what the Ethiopians describe as a consolidation phase. They define this to mean the program has halted until problems can be eliminated. As far as we can tell, there has not been any significant new resettlement since December.

Question. How many people have been relocated to the south so far?

Answer. According to Ethiopian Government figures, 600,000 have been resettled out of a planned 1.5 million.

Question. Last year the President certified that the Ethiopian Government was "conducting a deliberate policy of starvation". In you opinion, is this still true?

Answer. The President determined last summer that there was no evidence that the Government of Ethiopia was conducting a deliberate policy of starvation. We believe that Ethiopian government policies such as poorly planned and forced resettlement, result in starvation and death. However, there is still no evidence that they are deliberately starving their people.

Question. What is the current status of the war in northern Ethiopia? Has the starvation and resettlement policy of the Government of Ethiopia largely ended the guerrilla activities in the north?

Answer. The lastest government offensive stalled at the rebel-held strongpoint of Nafka. The situation remains one of military stalemate. Fighting between government troops and various insurgent factions have been going on for years—in the case of the Eritreans, twenty-five years. Control of food distribution is a serious element in the strategy of both sides of the conflict. However, the Ethiopian government has not attempted to resettle Eritreans. The resettlement of people from Tigre and Wello provinces has not weakened the rebellion in Tigre; in some ways it has strengthened people's support for the TPLF as they seek to escape from resettlement.

Question. How many Ethiopian refugees are now in Sudan refugeee camps?

Answer. Approximately 350,000.

Question. Were all the Falasha Jews successfully moved or do some still remain in Ethiopia and Sudan?

Answer. Some Ethiopian Jews remain in Ethiopia. We do not know how many. There have been estimates that range as high as 15,000. We believe the number may be closer to 7-9,000. There is a very small number in Sudan, under the care of UNHRC.

Question. Has the vast U.S. and western disaster assistance response to Ethiopia had any significant effect on that government's political relations with us? Has the human rights situation improved at all?

Answer. Relations between the U.S. and Ethiopia are poor and have not improved since the U.S. began its massive emergency assistance program in 1984. In the human rights area, the Ethiopian Government subjected its citizens to the suffering caused by the forced resettlement program during that same time-frame. It remains to be seen whether the current "consolidation" of the resettlement program will improve the human rights situation at all. Other human rights abuses, as cited in the recent report to Congress, continues unabated.

U.S. ASSISTANCE TO AFRICA: POSSIBLE CORRUPTION

Question. Mr. Crocker, many members of Congress are disturbed at the level of corruption that is being uncovered in the Marcos Government. We are deeply disturbed about allegations of kickbacks, payoffs, useless projects, funneling of project contracts to friends, and other actions involving U.S. foreign assistance dollars.

Mr. Crocker, in the past, I am aware of allegations of corruption in Liberia and Zaire, but it may be appropriate to be suspicious of difficulties with our programs in other countries.

How are you reviewing the potential for governmental corruption in African countries in our foreign assistance programs in light of the Philippines situation?

Answer. Our assistance programs in Africa are under constant review and scrutiny. Both security assistance and economic assistance are subject to a wide range of audit and verification procedures. AID is better qualified to give specific examples of their controls but, as far as security assistance is concerned, we have numerous oversight functions built into our assistance packages, not least of which is procurement of many items through the U.S. military.

OVERSIGHT FOR U.S. ASSISTANCE FUNDS IN AFRICA

Question. Are you confident that the Administration can account for the legal use of these funds in each country?

Answer. Since our assistance is primarily administered by AID, I would refer to the comments made on this subject by Mr. Mark Edelman, Assistant AID Administrator for Africa, during this hearing: "AID is an incredible bureaucracy . . . and one of the reasons it is an incredible bureaucracy is to try and prevent exactly what you are talking about.

We do enormous amounts of paperwork and paper trails on everything to try the best we can to make sure that does not happen. (Even) in the days of the cutbacks we are experiencing now, our Inspector General is not experiencing the same kinds of cuts in his operations funding that the rest of the agency is.

In a case like Zaire, all the procurement actions, for example, are handled by AID, not by the government. We do all the purchasing, either our mission there, by Americans who work for me there, or people back in Washington. The (Zaire) government does not get involved in most of those things. We jump through a whole lot of hoops to make sure that there, and in other countries as well, where we have reasons to suspect any type of misdoings, that it does not occur by how we are doing procurement actions.

. . . Is there no fraud? I can never say that. I am sure we are going to find occasionally—well, the Inspector General does once in a while, pipes up with it and I think that in any system that you have got, you almost surely will, but there is clearly, in all honesty, at every level in AID an extraordinary sensitivity to any kind of fraud, that may go on or any kind of abuse that may go on. The merest whiff of it, at least as far as I am concerned, the couple of times that I have seen it, I have gone straight to the Inspector General.

Peter McPherson does the same thing on any type whatsoever with those kinds of things."

Question. Can you assure us and the American taxpayers that their money is not illegally going into someone's pockets in these countries?

Answer. Again, I would refer to Mr. Edelman's remarks on this subject, already made at this hearing: ". . . (It is) in some of those areas where there have been the most past problems such as Zaire, where we go to extraordinary efforts. In the case of the Sahel, where we have had great problems in the past, we have instituted . . . extraordinary procedures on accounting and the handling of the funds in the Sahel. So that, contrary to a few years ago where we had audit exceptions by the staff in the Sahel, (there are) virtually none at all, maybe a few of them and none of them are very major, in the Sahel any more in the financial management, because we have engaged in financial training. We have had a special Sahel financial management program where we have trained government people and others who have to handle these funds and in some cases, have handled the funds themselves, so where there was that weakness we have stayed away from it."

I would like to add a postscript to Mr. Edelman's comments. It would be impossible to "guarantee" that absolutely no money is or has ever been improperly used in our Africa programs. However, we can say that we are vigilant and dedicated to assuring the proper use of U.S. assistance funds. While we have no evidence of misuse or mischanneling of funds, we are very sensitive to the potential for fraud and are on the alert to prevent it. We believe our oversight actions are successfully resulting in U.S. assistance going to those projects, programs and individuals for which it is intended.

FAMINE IN AFRICA—GAO REPORT

SOMALIA CORRUPTION

Mr. Obey. Mr. Crocker and Mr. Edelman, a Recent GAO report states:

"Problems affecting AID's food program in Somalia were widespread and require special attention."

"In Somalia, where only 12 percent of the food reached the most needy, the food shortage was not as severe as originally projected because of unreliable cereal production, existing cereal reserves, and consumption requirements. Therefore, Somalia received more emergency food than it needed, and this contributed to the fact that 58 percent of it was not distributed. The remaining 30 percent which was supposed to be sold to residents of urban areas through commercial channels was sold to public institutions, including Somalia's armed forces."

"In Somalia, where the Mission performed little monitoring prior to our visit, Mission officials did not know how much emergency food the mililtary had purchased and were not aware of poor storage conditions."

Government officials intercepted and sold 2,500 metric tons of FY 1984 Title II, World Food Program, wheat flour for about 17 percent of the prevailing market place to friends who resold it for a profit. The flour was a local development project.

This is apparently a clear case of poor U.S. management of foreign assistance (P.L. 480) and both poor management and outright theft of grain by Somali officials. What has been the State Department and AID response?

Did we send a formal diplomatic complaint? (If not, why not?)

Answer. The Government of Somalia (GSDR) and USAID signed a Memorandum of Understanding (MOU) in August 1984 for the distribution of commodities imported under P.L. 480 Title I and II programs. The MOU sets the parameters for the sale of food to public and private sector distributors.

The GSDR purchased P.L. 480 Title I commodities through individual sales agreement. The use of the commodities by the GSDR for sales to the public sector institutions does not violate any of the agreements for the years in question. Where agreements have been violated, which is not the case in Somalia, the U.S. Government seeks restitution from the offending government. Such violations are major considerations in determining the terms and conditions of any future assistance.

Because the U.S. Mission did not believe any violation occurred, no diplomatic action was initiated.

Mr. Obey. Are we pursuing legal channels in Somalia against the appropriate government officials? (If not, why not?)

Answer. The P.L. 480 Title I commodities granted to GSDR were sold to the Somali Government Agency responsible for the purchase and distribution of food (ENC). ENC currently handles donor food aid and distributes to the public as well as the private sector. All public institutions, as well as government stores receive food through ENC. ENC also had the responsibility to provide food for the Somali military forces. However, direct sales of P.L. 480 food were not made to the military.

On the question of interception of P.L. 480 Title II food, according to USAID, wheat flour was not received by WFP in 1980, 1981, 1982, 1983, or 1984. As far as USAID Mission records indicate, the commodities in question were provided by EEC, not the U.S.G.

The terms of the agreements were not violated. Therefore, at this time the U.S. Ambassador does not believe it would be appropriate or productive to initiate legal action.

Mr. Obey. Why, given this situation, are you proposing to again increase the Somali program? It's already the second largest in Africa.

	1986	1987
D.A	14.8	18.4
ESF	22.0	30.0
MIL	25.0	37.1
	16.7	20.0
Total	78.5	105.6

Answer. The FY 87 U.S. economic development program in Somalia is based on a continued movement toward economic stabilization and structural reform. Reform efforts to date have included major changes in the civil services system, decentralization of quasi government institutions, and a break up of some long established monopolies. Foreign exchange management, government fiscal operations and private sector incentives have also been significantly improved. These economic reforms which A.I.D. and the other donors have supported have produced visible results and their continued support is key to future improvements in Somalia's economic well being.

In 1985 there was a minimum increase in the Somalia DA program levels. In 1986 the program has been substantially reduced from 1986 requested levels: the DA was reduced from $20.5 million to $14.8 million, the ESF program from $27.0 million to $22.0 million and the PL 480 Title I and II levels remain at $20.0 million and $14.0 million.

The ESF program will assist Somalia with its foreign exchange liquidity problems and improve the function of its reformed foreign exchange allocation system.

Mr. Obey. Secretary Crocker, in situations like this where clear corruption is evident, what do you believe should be the approriate response of the U.S. Government? Should we expect restitution?

Answer. Where agreements have been violated, which is not the case in Somalia, the U.S. Government seeks restitution from the offending government. Such violations are major considerations in determining the terms and conditions of any future assistance.

AID TO LIBERIA

Question 1. The Administration is today receiving wide praise for helping to ease an undemocratic and potentially unstable regime from power in the Philippines. Would you say that the regime in Liberia—another country with strong historic ties to the United States—is undemocratic and potentially unstable? What steps is the Administration taking to facilitate a transition to democracy in Liberia?

Answer. The American Government has long supported a peaceful transition to democratic government in Liberia. For that reason, we encouraged the Doe Government in its commitment to return to civilian rule and hold elections in 1985. Although those elections were flawed, most seriously by a vote count procedure that was not open and credible, three opposition parties did participate in the elections and some opposition candidates won seats in Liberia's legislature. Following the elections in October and a failed coup attempt in November, the U.S. Government has been urging on both the Liberian Government and the opposition the desirability of working together for national reconciliation and democratic development. We have also urged the Liberian Government to implement fully the democratic and human rights guarantees of the new Liberian constitution for the benefit of all Liberians. We will continue to use our influence, including our assistance to Liberia, to support the development of democratic practices in Liberia as well as to promote needed economic reforms.

Question 2. As in previous years, the Administration is proposing substantial amounts of U.S. assistance for Liberia in FY-87. How do you square this request with U.S. support for democratic rule in that country? Does your generous FY-87 request send the appropriate message to the Liberian government?

Answer. FY-87 request figures for Liberia are significantly less than requested figures for FY-86, i.e., $74.9 million versus $88.3 million--a cut of 15 percent. FY-86 actual figures will not be final until the end of the fiscal year, but are currently down by almost 40 percent from the original request. In making these cuts, due consideration was given to overall budgetary constraints as well as Congressional concern which the Executive Branch shares about shortcomings in democratic and human rights practices in Liberia. Our FY-87 actual figures would be affected by similar considerations and by the Government of Liberia's performance in economic reform and democratic and human rights practices. The Government of Liberia knows that our bilateral relationship, including our assistance levels, is linked to the questions of democracy and human rights. At the same time, our requests reflect our recognition of the serious economic problems facing Liberia and the magnitude of help it will need if it takes the right steps, politically and economically.

Question 3. The House and the Senate have both passed resolutions that indicate serious congressional doubts about the U.S. aid program in Liberia. Both resolutions favor suspending military assistance, and the House-passed resolution supports making economic aid conditional on a number of democratic reforms. (The Senate-passed version favors the disbursal of economic aid through nongovernmental organizations to the maximum extent possible.) Do you intend to respond to the sense of the House and of the Senate as expressed in these resolutions?

Answer. The Executive Branch shares the Congressional concern expressed in the Sense of the House and Sense of the Senate Resolutions about many events surrounding the October 15 election and November 12 coup. We have taken into account the House and Senate expressions of concern about assistance to Liberia and to the current Gramm-Rudman budgetary environment in arriving at our reduced assistance levels in FY-86. ESF is reduced from the requested level of $48 million to the current figure of $28 million and military assistance from $12 million to $4.7 million. No ESF funds have been disbursed to date pending completion of negotiations and disbursements will be contingent on agreement between our governments on appropriate economic reform targets as well as on performance in democratic and human rights practices. MAP funds have not been disbursed. As the Executive Branch has assured Congress, no lethal items will be supplied. Small amounts of IMET have been used to allow students to continue their studies. The Executive Branch expects to continue consultations with Members of Congress and their staffs about events in Liberia and U.S. foreign assistance policy toward that country.

The U.S. Embassy in Liberia has been very active in using our influence to persuade the GOL to act positively. Our access is good and there have been some accomplishments. Most civilians detained in the wake of the November 12 coup attempt have been released and civilian judicial proceedings are ongoing for those who have been formally indicted, including Ellen Johnson-Sirleaf. International observers—including Americans—have been present at these trials. Non-government press is publishing although it has recently experienced financial and other difficulties. Political parties are active, even the UPP has resumed activities, and four opposition parties which contested the October 1985 elections have formed a coalition. The record on national reconciliation could certainly be better, but this is in part a result of the reluctance on the part of the opposition to cooperate with the Doe Government. In sum, it is the goal of the Executive Branch, as well as the Congress, to use U.S. influence in Liberia to promote meaningful economic reform and progress in democratic and human rights practices.

U.S. PREPARATIONS FOR THE UNGA SPECIAL SESSION ON AFRICA

Question 1(a). What will result from the upcoming special session of the U.N. General Assembly on the critical economic situation in Africa to be held in late May of this year?

Answer. For the last several years the international community and the African states have been working together to find solutions to that continent's difficult economic problems. We hope the Special Session will provide an opportunity to review that effort and set an agenda for the next few years.

Question 1(b). What does the United States see as the goals of the session?

Answer. In recent years there has been a coming together of ideas on the part of both the Africans and the international community. Many African states have seen the need for major economic restructuring and have taken courageous and difficult actions in that direction. The donors have tried to do their part by improving donor coordination and flexibility in order to ensure effective support for such efforts. We would hope that a Special Session endorsement of these trends would accelerate this progress.

Question 1(c). Will the United States consider participating in a multilateral effort aimed at addressing Africa's extreme development problems even though this Administration frequently expresses its preference for bilateral instead of multilateral assistance?

Answer. The U.S. already is and expects to continue to be involved in a coordinated international effort to address Africa's development problems. The Baker proposal on the use of Trust Fund Reflows, our contribution to the World Bank's Special Facility for Africa, and the African Economic Policy Reform Program (AEPRP) are all examples of our successful effort to take a multilateral approach. At the same time, our bilateral aid continues and in many cases is crucial to the reform process. The multilateral institutions are often constrained by rules that limit the way they can use their resources. They also want bilateral aid support to strengthen their hand in promoting adjustment. In some cases we can be more flexible and thus fill critical gaps. In other cases, we have technical expertise that other donors cannot provide as readily.

The emphasis of discussion should not be on multilateral versus bilateral assistance, but rather how to best design a coordinated approach to solve the problems. The source of assistance and the method of delivery will have to vary very much on a case-by-case basis.

Question "2(a). What steps is our Government taking to prepare for the session? What special expertise can the State Department draw upon in the other agencies of government? What is the role for Congress as preparations proceed?

Answer. We are already working to develop our position in discussions with other agencies. AID, Treasury, Agriculture and other agencies will play an important role in discussions on drought, agricultural development, economic reform and financial flows. We are also conducting intensive discussions with African leaders and delegations on the agenda and final declaration of the Special Session. So far we have noted an excellent spirit of cooperation and a sincere desire on all parties to make the Special Session a success.

Congress can also play a significant role. We hope that some Congressmen and Senators will be able to attend the session and exchange views with African leaders on the difficult economic problems facing Africa. It is also important that they hear from Congress the limitations on the U.S. government, particularly our budget problem.

Question "2(b). What proposals will the United States make at the session? What impact will the session have on the U.S. foreign aid commitments? Can we anticipate receiving a supplemental request for assistance funding either for a special U.N. fund for African development or through our bilateral assistance programs in Africa, once this special session ends?

Answer. It is still a little early to give more than a broad outline of our positions for the Special Session. However, we do not see it so much as a launching pad for new proposals but rather as a booster for the various favorable trends—mentioned earlier—already occurring among the Africans and the international community.

We do not view the Special Session as a pledging exercise and from what we understand neither do the Africans. There will be a discussion of Africa's financial needs—which are very great—but the industrial countries have tried to sensitize the Africans to the difficult budget problems we face at home.

Of course we come to the Special Session with a fairly good record. Until this year we had a steadily increasing level of bilateral assistance to Africa for several years. We hope Congressional approval of our FY 87 requests will resume that trend. We can also point to our African Economic Policy Reform Progrma (AEPRP), our contribution to the World Bank's Special Facility, Food for Progress, and Secretary Baker's Trust Fund reflow proposal. Now we are in discussions on IDA which we hope will also lead to increased assistance to Africa.

It should be emphasized, however, that resources are limited and this makes it all the more important they be put to good use. A key theme we will be pushing at the

Special Session is that everyone—donors and recipients—has to make much more efficient use of available resources.

AID TO MOZAMBIQUE

Question. In an era of severe budgetary constraint, how can you justify a request for $15 million in Economic-Support Fund assistance to Marxist Mozambique?

Answer. We have maintained the Mozambique requst for FY 87 at the same level requested in FY 86. We believe this is a minimum recognition of the steps taken by the Government of Mozambique toward genuine non-alliance, capped by its dramatic decision to no longer support the Soviets in the UN vote on Afghanistan, and progress it has made in replacing rigid socialism with a mixed economy featuring a larger role for the private sector and foreign investment. Our aid to Mozambique is in line with the overall western responded to the change in Mozambique's orientation; indeed, other western donors are increasing their programs while ours remains static.

Question. Would you agree that many of Mozambique's most severe economic problems are caused by the civil war now underway in that country? Is there any hope that economic development or economic stabilization can take place while that war continues? Are U.S. assistance funds going to be wasted in such a situation?

Answer. The insurgency in Mozamibique is a principal cause of Mozambique's poor economic performance, particularly the sharp decline in exports. However, statist policies drawn from Soviet influence, have also been a major factor inhibiting development. Here, our assistance along with that of the IBRD and other Western donors, has helped bring about liberalization especially in agriculuture. Our AID funds are targetted on helping private farmers, many of whom are in areas under secure government control. One of the results of our program is that Maputo is now supplied with adequate food from farmers who have been given land and price incentives. Our food aid, meanwhile, has been instrumental in preventing famine from both drougth and war, and has shown our Mozambicans that our West is much more relevant to their needs. The success in developing better agricultural production and the major impact our food assistance has had on the well being of the people argue that our assistance has not been wasted.

Question. To what degree would you say that South Africa is playing a role in supporting the guerrillas in Mozambique? What steps, if any, has the United States taken to dissuade South Africa from involvement in this war?

Answer. RENAMO records captured by government forces last August reported continuing South African contacts with RENAMO. The SAG admitted these contacts constituted technical violations of the Nkomati Accord but defended them as being part of its effort to broker a political settlement between RENAMO and FRELIMO. The Mozambicans claim that the SAG continues to support RENAMO, a claim the SAG denies. We have consistently admonished the SAG about support for RENAMO pointing out that such activities could destroy the Nkomati Accord. Our latest approach was made by DAS Wisner during his recent trip to the region.

SOUTHERN AFRICA REGIONAL PROGRAM

Mr. OBEY. Much of the Southern Africa Regional program is keyed to the development of the Southern Africa Development Coordination Conference (SADCC—pronounced SADEK) the regional development organization of the Southern African states. The AID Congressional Presentation reports that SADCC had been "purposefully slow and cautious", and "not without problems." Are these code words for saying the organization isn't working? Or can you point to concrete SADCC successes in getting itself organized, and in planning and implementing development programs?

ANSWER. After five years, SADCC's program of action reflects the experience gained from other regional organizations and its pragmatic understanding of what can be realistically accomplished, both in terms of magnitude of effort and time. To avoid the creation of a cumbersome and time-consuming bureaucracy, the nine member countries of Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe have been assigned responsibility for designated sectors within which they are expected to initiate studies, project proposals and strategies and to seek financial assistance. There are several examples of progress being made. First, SADCC has streamlined its procedures and methods of operation, partially as a result of recommendations contained in a recent AID-financed OECD study. Second, project implementation has proceeded particularly well in the transportation and agriculture sectors:

Under the leadership of Mozambique, the Southern Africa Transport and Communications Commission (SATCC) in Maputo substantially improved the analysis of regional transportation problems, increased SADCC and donor coordination and generated more than $700 million in donor commitments for the transportation sector;

Under the leadership of Botswana, the Southern Africa Center for Cooperation in Agricultural Research (SACCAR) in Gaborone improved the coordination of agricultural research priorities within the region and increased the sharing of research information; and

Under the leadership of Zimbabwe, the Food Security Unit in Harare has begun to improve early warning systems and meteorological data to provide earlier information of potential crop failures.

With respect to problems mentioned in the Congressional Presentation, we have noted that SADCC's thinly-staffed Secretariat in Gaborone limits its capacity to coordinate fully all activities, and the Secretariat is not legally empowered to sign international agreements on behalf of member governments. This situation can cause delays in project implementation and some problems of coordination. SADCC is aware of the problem, and donors and member countries work closely together to minimize its effect. We certainly applaud SADCC's decision to keep the Secretariat from becoming a large bureaucracy, and we believe that, all things considered, the organization works very well.

Mr. OBEY. Can you report on the status of our assistance programs for disadvantaged South Africans? Some Americans might find it incongruous that the United States provides foreign assistance in South Africa, which is such a rich country. What would you tell them?

ANSWER. Although South Africa is a rich country, the resources and incomes of the country are unevenly distributed. Seventy-two percent of the population are excluded from the central processes of government on the basis of race. Our program focuses assistance on those disadvantaged by apartheid, a policy which determines on the basis of race where an individual can live, work, travel, eat, or go to school.

The program is not a normal A.I.D. program: it is not designed to promote economic growth and the assistance is not channeled through the government. Instead we deal directly with trade unions, private voluntary organizations, local groups, and the private sector. The program is designed to support the administration's foreign policy objectives of ending the legal structure of apartheid and to encourage a peaceful political process leading to the establishment of a government based on the consent of the governed.

The specific objectives of the program are to promote leadership development for constructive change in the country through training and higher education, to protect human rights through legal aid for defendants and research on apartheid laws, and to promote black enterprises through entrepreneurial development.

A.I.D.'s Internal Scholarship program for disadvantaged South Africans has just gotten off the ground. Under this program there are now 77 South Africans attending universities in South Africa under A.I.D. scholarship support. Our plans call for an increase in this program to enable up to 200 students to receive scholarship support in both Fiscal Year 1986 and Fiscal Year 1987.

Under the program to bring disadvantaged South Africans to the United States for study at universities and colleges, there are at present 282 A.I.D.-financed scholarship students in the United States. 82 A.I.D.-financed scholarship students have finished their studies and returned to jobs in South Africa. We estimate that this year corporations, foundations, U.S. universities and colleges will contribute approximately $2.9 million to this program. A.I.D. plans to provide approximately $5 million in Fiscal Year 1986 and $6 million in 1987.

The Labor Union Training program has and will continue to provide training and support to black trade unions and unionists. We are proposing to increase this program in Fiscal Years 1986 and 1987 to $1.5 million each year.

Under the Human Rights program we have obligated over the past 18 months, $1.5 million for over 200 separate grants covering a broad range of activities to promote political, economic, social and juridical rights in South Africa.

The Entrepreneurial Training project, which has been in operation for slightly over one year, is assisting the National African Federated Chambers of Commerce (NAFCOC) to provide business training to black entrepreneurs in South Africa.

AFRICA REGIONAL PROGRAM

Mr. OBEY. Many of the programs funded under the Africa Regional Program appear extremely valuable. The health, training, and research programs funded under this account must contribute significantly to meeting the basic human needs of Africa's people. If major cuts had to be made in U.S. aid to Africa, would this be a program you would favor keeping? Would it be worth sacrificing some of the bilateral U.S. programs in the smaller African countries in order to preserve the Africa Regional Program?

ANSWER. Any major cuts in U.S. aid to Africa would have to be borne in part by the Africa Regional Program. The regional programs in the core areas you cite are, for the most part, implemented through country agreements or directly in support of country programs, and to that extent are distinguishable from bilateral programs only by their regional project designation and management. In the event of major funding cuts, core programs such as African Manpower Development, Combating Childhood Communicable Diseases, and certain sub-projects under Strengthening African Agricultural Research, might take priority over some of the smaller bilateral programs, or perhaps replace purely bilateral projects in selected small-program countries.

Mr. OBEY. Some Americans might be concerned to find that A.I.D. is supporting graduate and undergraduate education for African students through the Africa Regional Program at a time when education programs for Americans are being cut back. How many A.I.D.-funded African students are coming to the United States? How many are being trained in Africa? What is the cost? How would you justify these programs to the American taxpayer?

ANSWER. A.I.D. considers training a top development priority and an essential tool which enables the aid-recipient countries to use foreign assistance more effectively and improve the management of their own development. The alternative would be to leave most development work undone or rely to a much greater extent than at present on expatriate technicians whose cost far exceeds that of training. Within this context, A.I.D. seeks to limit dependence on U.S. academic and training facilities and give preference to placing trainees in local or third-country facilities where adequate programs are available. This policy stimulates development of third-world training and educational institutions and frequently results in cost savings to A.I.D.

Under the African Manpower Development Project (AMDP), A.I.D. each year finances about 400 short-term trainees in their home countries and 53 short-term trainees in third countries.

Because adequate graduate-level facilities are extremely limited in Africa, A.I.D.-financed graduate training for Africans takes place almost entirely in the United States. A small number of U.S. undergraduate scholarships is provided where facilities are lacking in African countries. AMDP finances U.S. degree training for an average of 55 students per year, estimated to cost approximately $19,000 a year under the Agency's current standard estimate for such training. (This estimate is subject to continuing review based on actual experience with cost levels in the various expense categories involved in training programs.) Trainees acquire technical and managerial skills needed to develop key public and private institutions.

Under the African Graduate Fellowship III program (AFGRAD), the annual total of new fellowships averages 100. For the 1985–1992 life of project, 530 of 750 fellows are scheduled to receive U.S. graduate training, with the balance to receive undergraduate or postgraduate training here. U.S. training for AFGRAD fellows is justified not only by the lack of appropriate facilities in the home country or third countries, but also by the readiness of the participating U.S. universities to furnish tuition waivers or scholarships for AFGRAD graduate fellows in view of the benefits the schools perceive in having top-flight African fellows as part of their student bodies, and by the benefits accruing to the United States through exposure of future African leaders to U.S. training and U.S. culture. AFGRAD has demonstrated the success of this approach since program inception in 1963. The current average annual cost to A.I.D. of an AFGRAD fellowship is approximately $16,000.

IMPACT ON AFRICANS OF NO U.S. AID

Mr. OBEY. Let me simply ask a general question.

If there were to be no economic aid whatsoever to Africa, do you really think that would have a significant impact on the welfare of individual African citizens?

Will it really be felt by them to any significant degree if we had no aid program at all?

Secretary **Crocker**. If we had no aid program? If there were none anywhere?

Mr. **Obey**. If we had no aid program.

Secretary **Crocker**. I think that we can say with some pride that we saved millions of African lives last year through our emergency efforts. That is one level of answer.

I think more broadly we have been a catalyst in terms of policies and concepts in the donor community and the international financial institutions. We have advanced the ball down the field in terms of building consensus. And thirdly, I think we would have the effect of undercutting important friends where we have interests of many different kinds. For example, in the case of Kenya, a leadership which has played a very constructive role on a regional basis, as well as internally inside Kenya. In the case of Zambia, the Chairman of the frontline states with an important regional role as well as an internal one, we could be undercutting good people who have taken real risks for policy changes that are politically risky. Those are just some of the points that I would offer.

AID SUCCESSES IN AFRICA

Mr. **Edelman**. Yes, let me make a few other ones.

He is giving you the broader answers and I agree with everything that he said. Let me talk about a few of the specifics.

There would be people now in North Shaba, in Zaire, who would still be starving if it were not for an AID project that we are doing there. There would be people in Guinea-Bissau who would not be growing cassava if it had not been for an AID project there. There would be people in Southern Africa whose maize crops would be substantially less than they are now if it had not been for AID projects and AID efforts.

There would be instead of what I mentioned earlier, a million-ton surplus of sorghum in Sudan, substantially less than that if it had not been for a hybrid sorghum variety that AID, working with some others, was largely responsible for producing.

There would be people today who would be suffering from a variety of diseases, especially diarrheal diseases, cures for which we are very much on the forefront of helping promulgate throughout Africa with some remarkable success.

We have had population/family planning projects that are taking off right now throughout Africa, and, to the degree that those succeed, that helps to reduce some of the other pressures that you talked about.

We have helped some dune stabilization projects in Senegal that would not otherwise be happening there, and the desertification would be even worse.

Ditto in Niger; ditto in Somalia. In toto, in the scheme of Africa's problems, which are on the nature of and the scale that you talked about earlier, how much does a North Shaba count—150,000 people who are now substantially more productive and better off than they were 10 years ago before this project started, 150,000 people out of 30 some odd million people in Zaire. Maybe it is not that important.

But as to your question, will anybody in Africa notice the difference, I think the answer is yes, they would. The question is how much do you want to pay for it, and how important is it? But they would notice the difference.

Mr. OBEY. So, why is most of our increase on the military side?

Mr. EDELMAN. Most of the increase, Mr. Chairman, is on the economic support side; on the ESF side, which goes entirely for economic purposes.

Mr. OBEY. To countries who have high defense burdens for political reasons, largely.

Mr. EDELMAN. It goes to countries——

Mr. OBEY. The ESF is not developmental assistance. ESF is——

ESF IS A TOOL FOR ECONOMIC DEVELOPMENT

Mr. EDELMAN. It is, Mr. Chairman. For a good share of that ESF, there is no difference between DA, and ESF in many of the countries that we are in. There is no difference in Botswana whatsoever.

The South Africa program is not developmental per se, but it is fully projectized assistance. Some of what we have done in Somalia is fully projectized assistance. The technical assistance that we have funded out of ESF, in a variety of countries, is virtually indistinguishable from what we do in DA. The Zambia program, not this year, but last year, was fully projectized.

The Zimbabwe program is a projectized type of assistance and it is all funded out of ESF. In the case of Senegal, we have gotten very sharp and important policy reforms out of the government. They are cutting back on the size of the government. The number of personnel in the government is getting smaller. They have virtually abolished the peanut parastatal, which was an extremely risky move for President Diouf that he still may not have fully ridden out because of some of the policy conditions that we have put into our ESF support there.

And in Niger, there is a 400,000 ton surplus of millet this year, partly the result of some ESF support that we gave and some policy reforms in Niger dealing with marketing and pricing reforms.

So, it is not military and it does get reforms and in many countries it is indistinguishable from DA. Not in all countries, but in many countries it is indistinguishable, really, from DA and how we use DA and what we get out of the DA request.

Secretary CROCKER. Mr. Chairman, if I could have one word on the Military Assistance Program, the MAP account. What we are seeking to do is to restore from a particularly low level that we were obliged to take because of the worldwide 1986 budget situation, back to a level of just around $200 million for both MAP and FMS. That represents one-fifth or one-sixth, whatever it is, of the overall. It has been at that level, on or off, in our requests and this is going back to 1982.

There was a one-time increase under this Administration and it is now five years old and yet, every year when we come up to testify, we are accused of having doubled the military assistance program and it is just not so.

We made a one-time increase to try and account, specifically in Sudan, Kenya, and Somalia, for our growing interests.

Mr. OBEY. It is up, it is up.

Secretary CROCKER. The request level has been flat since 1982, is what I am trying to suggest.

Mr. OBEY. Well, request levels are irrelevant. I mean, I indicated here with one other witness, who reminds me of my son, saying, dad, I want an increase in my allowance. What do you want? I want a 5 percent increase, I want a dollar and five cents, and I tell him you are not getting the dollar, what are you talking about, you are only getting fifty cents now?

And he says, yes, but I asked you for a dollar last year.

I mean that is not the point. On the domestic side, we are working off of last year's operating levels. And you have got to work off of those levels on the military side and on the aid side, too.

Secretary CROCKER. Mr. Chairman, I am a parent too, but I hope that you would grant that we take seriously our job of trying to put up realistic numbers that would support the President's policy and not just throwing any number up to the Hill that we happen to think might be nice on a wish list. We really do work at these problems and try to keep the requests within reason.

FY 87 FOREIGN ASSISTANCE: HARSH REALITIES

Mr. OBEY. I do not have, on merits, a lot of objections to what you have proposed here today for Africa. Some questions around the edges, I suppose. I certainly would have objections to providing direct assistance to Mr. Savimbi.

But I genuinely mean it, Mr. Secretary, when I say that I do not know what to do with this bill, because every day that the impasse continues on the budget is another day that we have absolutely no votes for anything.

And I am not telling people that I think the only bill that we could pass is one that provides Middle East money because I think that is a responsible response. I am simply telling that because when I move around the floor, that is what I count.

The authorizing committee has a different problem. People are always much more willing to vote for spending in authorization bills than on appropriations.

But this year for the first time, we cannot be in a CR, we have to be right out there on an appropriation bill. Gramm-Rudman-Hollings requires that we be out there with an appropriation bill by July. And if the President does not give us some answer to funding the programs for which you have just made a very eloquent defense, both of you, then if he does not give us some answer to funding them except taking them out of cancer, heart, medical research, education, you name it, here at home, the Congress is going to tell him to eat it.

And I honestly do not believe that we have got the votes for anything except the Middle East and that is ludicrous, but what has been happening in foreign aid has been ludicrous for a long time

And so I just urge you, for whatever it is worth, to communicate that to the Administration. I am not trying to screw up the foreign policy. What I am trying to suggest is that the practical facts of life are that Congress is not going to vote for this bill, and I honestly think that if I put any number in for anybody, except the Middle East, it will be too low for some, and too high for others, and the result will be that everybody votes against it.

So, I honestly think, in spite of your requests, we are going to have nothing in the bill for Africa, when it comes out. It is crazy but if we have to bring a bill out before July, as I have got to, I cannot turn a minority into a majority.

APPROPRIATIONS BILL ON THE HOUSE FLOOR

And I hope the Administration believes that because hopefully we are going to be marking up in less than a month and it will be clearly demonstrated. I honestly think that if I took this bill to the floor, under these circumstances—and I have been thinking of doing just that—I have been thinking maybe the best thing to do with this aid bill is to put it on the floor without changing a comma, just as we did with the President's budget Mr. Gray put on the floor last week. But I tell you if I did that, I do not think that you would get the 12 votes that the overall budget got last week. So what I am looking for is some sense of realism on the part of the Administration on that. And I know that is beyond you because the decision is being made in a different building, but if anybody ever calls down and asks what you really think is going to happen, on the aid bill, you tell them it is going to be ripped, unless we get something by way of a deal by July.

That is all that I have got. Do you have anything else?

Mr. EDELMAN. Thank you.

Secretary CROCKER. Thank you very much, Mr. Chairman.

Mr. OBEY. Thank you for appearing.

Questions for the Record Submitted by Mr. McHugh

SOUTHERN AFRICA/ANGOLA

Question. What are our objectives in southern Africa?

Answer. Our fundamental objective in the region is to lessen regional and domestic violence in order to aid the development of democratic political systems and respect for human rights. Our specific objectives include: to accelerate evolution away from apartheid in South Africa, to achieve Namibian independence and the withdrawal of Cuban troops from Angola, and to help promote stability and moves away from the Soviet camp in Mozambique.

Question. What are our objectives with regard to Angola? How do they fit in with our southern Africa objectives?

Answer. Throughout the past five years we have maintained contact with all the significant parties in southwest Africa in our attempt to promote peace and stability in the region. One of the foundations of our policy has been that a military solution to the conflict in Angola is not viable. The withdrawal of foreign forces from Angola and Namibia will help the Angolans work out a solution to their internal problems themselves. This is a chief aim of our attempt to achieve a negotiated diplomatic agreement on the independence of Namibia under U.N. Security Council Resolution 435 and the withdrawal of Cuban troops from Angola.

Question. What are our objectives in providing military assistance to UNITA? How do they fit into our Angola objectives? How do they fit into our southern Africa objectives?

Answer. As we have said before, we view with sympathy UNITA's struggle against Soviet/Cuban adventurism. UNITA is a true nationalist movement with a long anti-colonialist history and legitimate aspirations of having a voice in Angola's political future. We believe that appropriate and effective support should be provided to UNITA and are working in that direction. We intend our involvement with

UNITA to be both prudent and effective. Our goals are not unlimited; we do not believe military solutions to Angola's problems to be viable. We want a negotiated settlement which will bring Namibia to independence in accordance with UNSCR 435 and which will bring about Cuban troop withdrawal from Angola. Reduction of the outside involvement in Angola's internal problems will set the stage for Angolans to resolve them among themselves, as they see fit.

Question. What are UNITA's stated objectives in its struggle against the Angolan government?

Answer. We cannot, of course, speak for UNITA. However, Dr. Savimbi has repeatedly said he does not believe a military victory in Angola's civil war to be possible for either side. His aim, as he clearly stated during his visit to the U.S., is to prevent further bloodshed between Angolans by convincing the MPLA of the need to begin a process of national reconciliation.

Question. What do we believe are the Angolan Government's objectives in its struggle with UNITA?

Answer. Just as we cannot speak for UNITA, we cannot speak for the MPLA. Indeed, we ourselves have questions about what the MPLA really wants: peace and a better life for all Angolans, or simply the military defeat of UNITA. If the MPLA wants peace, we are ready to help by assisting Angola and South Africa to achieve agreement on the withdrawal of foreign troops from the region. The MPLA and UNITA could then get on with the process of national reconciliation without outside interference. However, the MPLA's escalation of its war against UNITA—with ever higher commitments of Soviet assistance and Cuban troops—suggests it may be continuing to try to solve its domestic problems by military means.

Question. What do we believe are the Soviet Union's objectives in Angola?

Answer. We cannot state with certainty the Soviet Union's overall objective in Angola. However, it appears that its objective is to maintain and increase the influence over Luanda by helping to fuel the escalation of violence there in order to further increase the MPLA's dependence on Soviet military assistance. This has meant massive Soviet military assistance—over $4 billion since 1976—to the MPLA in support of the latter's war against its domestic opposition.

Question. What do we believe are Cuba's objectives in Angola?

Answer. It appears that Cuba seeks to exploit the escalation of violence in southern Africa to its own ends. As witnessed by recent statements from Havana that Cuban troops will not leave Angola until the abolition of apartheid in South Africa, Castro seems to have in mind helping to set off some grand conflagration in southern Africa in which Cuban troops can play the role of "revolutionary" vanguard.

Question. What do we believe are South Africa's objectives in Angola?

Answer. South Africa's objectives in Angola are complex and perhaps contradictory. Its basic concern is the presence of Cuban troops, which they believe threatens the security of southern Africa. Pretoria also see itself defending its position in Namibia by operating against SWAPO bases in Angola. Finally, the South Africans aid UNITA, both for instrumental reasons—they feel their interests would be furthered by an Angolan government in which UNITA had a place—and also out of support for Jonas Savimbi's nationalist struggle against Soviet/Cuban expansionism. South Africa has demonstrated repeatedly a willingness to resort to military force to preserve these interests.

We do not accept South Africa's illegal occupational of Namibia and we therefore reject South African assertions of legitimate interests in Angola on that ground. However, we share South African concern over the presence of Cuban troops and South African support for Savimbi. But we do not believe Angola's or South Africa's interests lie in further military escalation. We believe a negotiated settlement which will bring Namibia to independence in accordance with UNSCR 435 and which will bring about Cuban troop withdrawal from Angola to be the way to safeguard both side's legitimate security interests.

Question. Obviously the Angolan Government is doing things we do not like, and we want them to reverse this pattern of behavior. What is it exactly we want them to do?

Answer. As we have said, we want a negotiated settlement between Angola and South Africa which will bring Namibia to independence in accordance with UNSCR 435 and which will bring about Cuban troop withdrawal from Angola. The South Africans, however slowly, have taken steps towards this goal by accepting our March 1985 negotiating synthesis and by proposing the August 1 date for beginning the implementation of UNSCR 435. The Angolan government has not yet made any move toward the ideas of our synthesis. We want it to respond so that we can reengage the negotiations and take advantage of the opportunity presented by the South Africans' offer of the August 1 implementation date.

We also would like to see an end to the violence in Angola itself. This violence benefits no one beyond the Soviets and Cubans. We believe the MPLA will have to bring itself to reconciling with UNITA for peace in Angola to be achieved. The withdrawal of foreign forces from Angola and Namibia will help the Angolans work out a solution to their internal problems themselves.

Question. Of all the things we want the Angolan Government to do, could you prioritize the list according to what is most important to us?

Answer. I believe we have answered that question above.

Question. Of all the things we want the Angolan Government to do, could you prioritize the list according to what is most important to UNITA?

Answer. Once again, we cannot speak for UNITA. However, Dr. Savimbi has told us he supports our efforts to negotiate an agreement including Cuban troop withdrawal from his country. UNITA's fundamental concern, of course, is to convince the MPLA of the need to begin the process of national reconciliation.

Question. Of all the things we want the Angolan Government to do, could you prioritize the list according to what the Angolan Government will find it easiest to agree to?

Answer. None of the decisions we believe the MPLA must make for there to be peace in the region is easy. But we have made clear to the Angolans during the course of our negotiations the direction they must go if they are serious about peace. The recent South African announcement of readiness to begin implementation of UNSCR 435 on August 1 if agreement can be reached on Cuban troop withdrawal makes that the last major issue to be resolved.

Question. Of all the things we want the Angolan Government to do, which might threaten its survivability?

Answer. We believe the agreement we seek on the withdrawal of foreign troops from Angola and Namibia is in the best interest of the Angolan people. It will enable them to resolve their differences without outside interference from either the Cubans or the South Africans.

Question. South Africa has provided financial and military assistance to UNITA in the past. Are there any signs this assistance is increasing or decreasing? Why?

Answer. South African Defense Minister Malan admitted last September that South Africa gives assistance to UNITA. We cannot comment on the amounts and type in open session because that falls into the area of sensitive intelligence matters.

Question. Who in the Angolan Government today has the power to make a decision such as "lets negotiate with UNITA," or "let's ask the Cubans to leave?"

Answer. It is difficult to comment on decision-making within the Angolan government. It is our impression that much is done by consensus. However, President Dos Santos' hand was strengthened by last December's MPLA Party Congress. Those closest to Dos Santos were promoted and since December, his supporters have moved into key government posts as well.

Question. How is our military assistance to UNITA targeted on this group of Angolan decision-makers? Does it affect them directly or indirectly? How?"

Answer. As we have said before, we believe that appropriate and effective support should be provided to UNITA and are working in that direction. Our aim in doing so is to help convince the leadership of the MPLA of the need for negotiated settlements to the regions conflicts.

Question. To what extent must the Angolan Government decision-makers take account of Soviet and Cuban objectives in making a decision to negotiate with UNITA?

Answer. No doubt the Soviets and Cubans have significant influence over MPLA decision-making. But the MPLA itself is probably the chief obstacle in potential negotiations on national reconciliation. Savimbi has said he would be willing to serve under President Dos Santos while preparations for free elections were underway. But the MPLA has repeatedly said it will not negotiate with Savimbi. Most observers agree that it would be impossible for the MPLA to talk to UNITA without talking to Savimbi.

Question. How is our military assistance to UNITA targeted on Soviet and Cuban decision-makers? Does it affect them directly or indirectly? How?

Answer. Our policy for Angola/Namibia is based on the understanding that military solutions to the conflicts in the region are not viable. The Soviets and Cubans appear not to accept this. To the extent that UNITA's struggle against the Soviet/Cuban presence in Angola convinces the MPLA and their patrons that national reconciliation will not be achieved at the barrel of a gun, they may decide to accept the necessity of a negotiated settlement.

Question. Could you provide illustrative examples of what we want the Angolan Government to negotiate with UNITA?

Answer. We believe the process of nationl reconciliation is inevitable if Angola is ever to achieve real peace. We are ready to play a part in this process if the parties ask us to play. But our objective in the present negotiations with Luanda and Pretoria is an agreement which will bring Namibia to independence in accordance with UNSCR 435 and which will bring about Cuban troop withdrawal. Reduction of the outside involvement in Angola's internal problems will set the stage for Angolans to resolve them among themselves, as they see fit.

Question. Would it be acceptable to us if UNITA demands more in the negotiations than our stated objectives? Would it be acceptable to us if UNITA demands less than our stated objectives?

Answer. We believe national reconciliation in Angola must occur and we are prepared to help the parties in the negotiation process should they decide to have one and should they ask us. But it is not for us to dictate the terms or objectives of those negotiations; that is for the Angolans themselves to decide.

Question. Would it be acceptable to us if UNITA agreed to a continued Cuban presence in Angola? Would it be acceptable to us if UNITA abandoned its stated goal of a pluralistic democracy in Angola?

Answer. There are hypothetical questions. UNITA and Dr. Savimbi have made clear by word and deed their commitment to an Angola free of foreign military occupation and open to participation by all of Angola's many peoples and groups.

Question. To what extent must UNITA take account of South Africa's objectives in negotiations?

Answer. South Africa's basic concern with Angola is the presence of Cuban troops there. Pretoria also supports UNITA's struggle for national reconciliation. On these issues, we do not believe UNITA and South Africa have different objectives. Clearly, Savimbi, as an African nationalist, does not share South African views on apartheid. There is no indication that South African aid to UNITA, which both sides admit, has caused UNITA to submerge its differences with Pretoria.

Question. Beyond the dollar cost of our military assistance, what is the likelihood of other costs to us in supporting UNITA? If U.S. firms abandon their investments in Angola, what is the dollar cost of this? If U.S. trade with Angola is curtailed, what is the dollar cost to U.S. firms in terms of lost export opportunities?

Answer. In principle, we are not eager to curtail commercial relations with anyone. U.S. exports to Angola totalled about $140 million in 1986 and the Angolan market is a potentially lucrative one. While we do not have any firm estimates for US investment in Angola, it is certainly significant to the companies involved. But U.S. policy for southern Africa—to lessen regional and domestic violence and assist the development of democratic politics, and respect for human rights—is not based on dollar accounting.

Question. How any black African states expressed support for our assistance to UNITA? Which ones?

Answer. While in public African statesman are traditionally reluctant to criticize the government of a fellow OAU member, some have told us unofficially that they share our view that a Cuban military presence in Africa is unwelcome. Many also believe that real peace in Angola cannot come until the MPLA makes its peace with UNITA. But we cannot reveal specific information that would violate diplomatic communications.

Question. Have any black African states expressed opposition for our assistance to UNITA? Which ones?

Answer. Public African reaction to reports of US support for UNITA has not been positive. But on this, as on many other issues, this is not the whole picture. We cannot expect public support from African states for aid to UNITA but, based on what we have heard thus far, we have strong support for our role in continuing negotiations for a settlement of regional issues.

Question. What are the consequences of Black African support for or opposition to our assistance to UNITA for our overall objectives in southern Africa?

Answer. Our commitment to lessening regional and domestic violence is aimed at promoting peace, stability and progress in the region and we pay great attention to the views of our friends in Africa. We are in especially close contact with the Front Line States. Though we do not always agree on all matters, we listen to them and they listen to us.

Questions for the Record Submitted by Mr. Dixon

LIBERIA

Question. Could you please comment on the situation in Liberia according to your perspective, and review the steps the Administration is taking to initiate meaningful political and economic reforms in Liberia? What are the prospects for stability in Liberia?

Answer. The Liberian Government and people face both problems of how to achieve national reconciliation and consensus politically and how to reverse the present economic decline. Economic pressures have exacerbated the political climate. The GOL has been unable to keep up-to-date on salary payments for its large public sector—in some cases salaries are as much as 3 months in arrears—which puts direct pressure on the Liberian people. As a consequence, many families have not been able to pay school fees. A recent teachers strike and student demonstration in its support were essentially caused by the overall economic decline. The GOL has now borrowed ahead on future revenues to try to pay salaries but there are so few dollars left in circulation that the banking system has been unable to monetize the GOL balances. In the meantime four opposition parties (UPP, LAP, LUP and UP) have formed a coalition.

The Executive Branch is making every effort to counsel both the Doe government and the opposition to work out their differences in a peaceful and cooperative manner. The Embassy in Monrovia holds discussions continuously with members of the government and the opposition urging greater movement toward national reconciliation. Our Ambassador has excellent access to President Doe and his primary advisors and has continually consulted with them on both econonomic and political issues. It is clear that drastic measures must be taken to solve the economic crisis and we have said so, suggesting what some of these measures might be. Use of allocated ESF resources will be contingent upon economic reforms as well as improvements in human rights and national reconciliation. We are making this point clear. Thus the tools of foreign assistance policy, persuasion and technical assistance are all being applied to try to improve the situation in Liberia.

Because of our close, long-standing ties with Liberia, our own interests there and the presence of a large American community in Liberia, the U.S. Government will continue to use what influence it has with both the Government and the opposition to promote peaceful evolution toward democratic government and economic reforms which could set the stage for economic growth and development.

REFUGEE ASSISTANCE

Question. In the "Emergency Famine Relief and Recovery in Africa Bill," Congress appropriated an additional $25 million to the emergency refugee and migration fund (ERMA). I understand in 1985, that $8 million was used for the U.N. Works and Relief Agency (UNRWA) and $2 million was used for the U.N. Border Relief Organization. Only about $7 million of the $25 million replenishment went to Africa. Does the Administration plan to spend the remaining $8 million in the fund for Africa emergency relief?

Answer. The President's Emergency Migration and Refugee Assistance Fund (ERMA) is available for use to respond to unanticipated refugee emergencies worldwide and has a permanent authorization of $50 million. Last year, Congress recognized the extraordinary pressures on the refugee program caused by drought-related disasters in Africa and replenished the ERMA by $25 million, using the African Famine Relief and Recovery Act of 1985 as a vehicle. However, to meet emergency assistance needs in 1985, particularly in Africa, the President authorized drawdowns totalling $40 million. Of that total, $30 million went for Africa and for resettlement of African refugees; in addition, Vietnamese attacks on the Thai-Cambodian border required an emergency infusion of an additional $2 million for Khmer relief, while critical budget difficulties of UNRWA necessitated an additional $8 million drawdown. The following chart details the flow of funds for FY 1985 (in thousands of dollars):

Opening balance	33,000
Replenishment	25,000
Total	58,000
Less drawdowns:	
UNHCR Africa	10,500
ICRC Africa	12,000

African resettlement	5,000
Voluntary agencies/Africa	2,500
UNRWA	8,000
Khmer relief	2,000
Subtotal	40,000
Closing balance, FY 85	18,000

While the situation in Africa has improved somewhat, needs as projected by the international organizations still far exceed funds available under MRA. The Department intends to pursue all options for providing the U.S. fair share of these needs, including reprogramming and, if appropriate, seeking Presidential authorizations for drawdowns of the ERMA. The current ERMA balance is $18 million. The Department is requesting $25 million to replenish the ERMA in FY 1987.

ANGOLA

Question. Amid reports that the first plane load of material aid destined for UNITA—the Savimbi led guerillas fighting against the Angolan government—has left the United States for Southern Africa, the Administration is faced with a tough job of explaining this action to our friends in the Southern Africa region. President Kenneth Kaunda, who is considered an elder statesman and peace-maker in Southern Africa, has said that this decision amounted to "a declaration of war" on Angola and a hostile act against the Front-Line States. Others have said that support for Savimbi clearly shows that the U.S. has taken sides with South Africa—a country that is destabilizing the region. How has the Administration explained this action to leaders of the front-line states? How can we expect to maintain credibility in the region? How can we serve as a credible negotiator in Namibia? Has the Administration carefully examined the Angolan government's troop removal plan?

Answer. As we have said, we pay great attention to the views of our friends in Africa. We always listen carefully to President Kaunda, who is as you point out a repected statesman. However we do not always agree.

We view with sympathy UNITA's struggle against Soviet/Cuban adventurism. UNITA is a true nationalist movement with a long anti-colonialist history and legitimate aspirations of having a voice in Angola's political future. We believe that appropriate and effective support should be provided to UNITA and are working in that direction.

While the public African reaction to US support for UNITA has not been positive, on this, as on many other issues, one must look beyond the publicly stated positions.

We know from our private contacts with many African leaders that they share our view that a Cuban military presence in Africa is unwelcome. Many also believe that real peace in Angola cannot come until the MPLA makes its peace with UNITA. There is, in short, more African support for our position regarding Angola than public statements might indicate.

On the question of our ability to serve as a credible mediator in the region: our commitment to peace is clear. We are not the party providing massive support for military solutions to the many conflicts in the region. If the MPLA wants peace we are ready to help. We gave their November, 1984 proposal for withdrawing some of the Cuban troops and the South African counter-offer careful consideration in drawing up our own synthesis proposal of March, 1985. The MPLA has never responded concretely to our proposal. It chose instead to continue to try to solve its domestic problems by military means. However, the door is still open to a negotiated regional settlement.

Question. South Africa: In your testimony before the Africa Subcommittee last week, you said that the Administration supported the creation of a system based on majority rule, and that the African National Congress could be considered "freedom fighters" in the generic sense. In light of the clarification the next day by your Department, can we assume that the Administration's policy will continue to push for "majority rule."

Answer. We believe our policy effectively maximizes our limited influence on behalf of constructive change inside South Africa. Our policy mixes pressure and a willingness to listen to all sides so that we can encourage peaceful remedies and negotiation as solutions to South Africa's political crisis. Insulating South Africa, or punishing it with harsh sanctions, will lead to greater violence and polarization inside the country, hardly a desirable outcome from anyone's point of view. We believe that majority rule is inevitable and desirable in South Africa and that our policy is the most responsible way of encouraging this outcome nonviolently and in such a way that the rights of all South Africans are protected.

AFRICA DEBT CRISIS

Question. In view of the grave financial circumstances in Africa, I think we can all praise the administration's proposal to direct $2.7 billion in the IMF Trust Fund reflows to Africa over the next five years. But, as you know even an additional $500 million or so per year from the IMF is not enough to deal with Africa's lack of foreign exchange to generate real economic growth. Experts at a conference in Washington on African debt recently said that even with continued policy adjustments, Africa faces an overall yearly foreign exchange deficit of $6 billion below what would be necessary to finance real growth. About 50 percent of Africa's export earnings are designated for debt service alone. (1) Has the administration considered adopting a similar policy of major donor countries like France, Britain and West Germany that involves "forgiving the debts" of the lowest income countries in Africa; and (2) has the administration considered making the debts payable in local currency or refinancing the debts on highly concessional terms (e.g., a 5-year grace period and repayment over 15 years, similar to what private banks have agreed to do for Mexico)?

Answer. We are very much constrained in what we can do in regard to debt forgiveness by the legislation under which we are obliged to work and the situation in hand in these developing countries. Under current legislation, any debt forgiveness or provision for concessional refinancing on economic or military assistance loans would require an appropriation, and, consequently, have an immediate budgetary impact. Moreover, the only debt forgiveness we could offer under current legislation would be to the very least developed countries, and only on certain types of loans. Such debt constitutes a very small percentage of the Africa total, perhaps two percent.

Similarly, some provisions have been made to allow the U.S. Government to take debt payments in local currency. The Food Security Act of 1985 made provision for debt payments in local currency under conditions that would require the recipient governments to relend a portion of the proceeds of these loans to the private sector. Such on-lending conditions, however, have immediate budgetary consequences, which may make this feature of these loans unattractive to most developing countries. In addition, the U.S. Government regularly takes a small portion of the interest payments on PL-480 loans in local currency as currency use payments to offset the cost of U.S. Government operations abroad. However, the use of such local currency payment arrangements has been strictly limited by the overall size of U.S. Government operations abroad. There are simply very few developing countries in which U.S. Government operations are at such a level as to demand substantial funding in local currency.

Finally, we have to bear in mind that current debt management arrangements are working relatively well for those countries undertaking effective adjustment programs (e.g., Senegal, Ivory Coast, Zaire, and Niger). Established debt rescheduling procedures, applied on a case by case basis, have proven to be sufficiently flexible to support serious adjustment efforts. Debt forgiveness, on the other hand, could seriously undercut the incentives for effective adjustment, weaken the financial position of creditor agencies, and, in the long run, damage developing country prospects for a return to more normal financing relationships.

WEDNESDAY, APRIL 9, 1986.

INTER-AMERICAN FOUNDATION

WITNESSES

DEBORAH SZEKELY, PRESIDENT

BOB MASHEK, EXECUTIVE VICE PRESIDENT

Mr. OBEY. The committee will now turn to the FY 1987 request for $10.8 million for the Inter-American Foundation. The FY 1987 request is a decrease of $700,000 below the post-sequestration FY 1986 level of $11.5 million.

In addition to reviewing the appropriations request for the foundation, I am sure that there will be interest in continuing to explore concerns that the board of the foundation has tried to politicize the operations of the organization and potentially disrupt the goals of providing grass-roots support to the poorest of the poor.

Our primary witness will be Ms. Deborah Szekely, President of the Inter-American Foundation.

Ms. Szekely, please proceed with your statement.

Ms. SZEKELY. Thank you.

First, may I introduce the IAF's executive vice president, Bob Mashek, who is here in case I have some questions that I need help on.

It is an honor to be here to testify before this distinguished Subcommittee on Foreign Operations. It is also a special pleasure for me as President of the Inter-American Foundation to tell you about our work in Latin America and the Caribbean.

Mr. OBEY. If I could interrupt, if I could ask you to summarize your statement, because we got behind this morning, and we are going to be behind all day. So if you can summarize it.

Ms. SZEKELY. I would be glad to do it.

Mr. OBEY. You may submit the rest for the record.

Ms. SZEKELY. Okay. Thank you. And we will submit the rest for the record.

We feel that the Inter-American Foundation's work is particularly important to Latin America and the Caribbean at this time, because the IAF is the only development assistance agency of the United States Government working in six of the largest countries, with 75 percent of the population. We alone work in Argentina, Brazil, Chile, Mexico, Uruguay, Colombia and Venezuela.

This makes us important in those countries. We were set up by Congress in 1969, and we are even more important today than we were at that time because we are the only agency which responds directly to the needs of poor people. Poor people have ideas and they think, "If only we had some money, this or that could be done." We create a productive partnership with the poor. They appeal to us, we review the project, and work with them. This enhances not only their productivity, but their self-esteem, their knowledge and ability to work together. Thus, we create community leaders.

Fifteen years ago everyone thought we were sort of "way out" because we were funding private development foundations throughout Latin America and the Caribbean. But this, too, has become very important, and today AID, and IDB, and the World Bank are focusing on things that we pioneered. We have been the trail blazer.

I have a complete statement, how much would you like for me to read?

Mr. OBEY. Whatever you are comfortable with. Don't let the clock squeeze you out of saying anything you think is important.

Ms. SZEKELY. Okay. I don't have to go into the difficulties in Latin America. The problems are enormous. We have made an impact and people learned from this. We are a laboratory for development. We go out and experiment. We are a very small agency. We can be experimental, we can be innovative, and we can be very flexible, and that is enormously important in working with the poor. We don't just design projects and say "this is it." The poor come up with the ideas. We have a monitoring process that offers assistance and our staff meet with our grantee four times a year so that we can increase our knowledge and also help them and give them whatever they need as they need it.

Our field representatives are stationed here in the United States. There are only 22 of them. Although originally we had an allocation of 100 personnel.

We have one of the most cost-effective and productive foreign assistance programs in government. Our budget represents less than one half of 1 percent of the U.S. foreign assistance budget. Our average overhead is 15 percent, and last year we had our highest funding level ever. We have a very good statistic of matching funds, and an average of $1.23 is generated by the recipient organization for each dollar that we grant. These are grants. Only very rarely are these loans, because these grants are meant as seeds to get started.

The benefits from the grants continue. It's like venture capital in which the profits are made by the people themselves.

The commitment of the people is most important, because they have the idea and their commitment is all-important in carrying it out, rather than something that has been planned for them.

In a year and a half, I have visited 85 projects in a dozen countries, and I come home very, very proud of the United States government, the Congress, and the Inter-American Foundation. It is a most worthy organization to support.

We also are in the position of being able to fund projects that other people are apprehensive to fund. We funded an interesting project in Haiti last year. The Bishop of Cap Haitien came to see me and the Papal Nuncio in Haiti, the United States Ambassador from Haiti came by to discuss it. The Haitian Church was able to put together, for the first time in the history of the country, a literacy campaign in Creole. All previous literacy has been in teaching them to read and write in French, when less than 8 percent of the people speak French. It hadn't been very effective.

We started this program almost a year ago and it is already in place. Now other funders are coming along. If this program had begun now there would be another year of start-up time. The materials are now ready, and 3 million people will be learning to read and write for the first time in their own language.

We are in a position to take those kinds of risks. We are autonomous, we look at proposals closely, we have a very good field staff, and those kinds of projects are what I'm most proud of.

Most of the small private development foundations that we started with in Latin America and the Caribbean have split off into many groups, so that now there is a large network, and we can point with pride to the fact that we planted the first seed.

We have organized a major office for learning and dissemination, so that more and more of our funding, the learning component, will become integral and very important. We have exciting plans to make our journal, which has been published twice a year, a quarterly and make an important contribution to the development field and include in it not only our projects, but other interesting projects. There is no networking communication among development agencies. We can all learn from our successes and from what we are not quite so proud of as well.

A very important part of this is what is best called "human resource development." We are now spending about 14 percent on training leaders, on training them in management techniques. We are helping to create a basic kind of MBA literature, but at sixth grade level, so that it's understandable and usable. Existing leaders can learn from what is known in our country as group dynamics in management. But it is being done at a sixth grade level so that our co-op leaders will be better leaders, and more successful. We believe that if they are successful this will encourage more people to become involved.

We have a Social Progress Trust Fund Agreement for the next three years, and we are very pleased. We will have 16 million in Social Progress Trust Funds for program purposes.

The Foundation FY 1987 program is based on a budget authority of $10.8 million, and 67 full-time equivalent FTE personnel. The 1987 program projects a total of $21.1 million, plus available reobligation authority, to be used for grants throughout Latin America and the Caribbean. These sums will enable the foundation to support a program second only to the record level of FY 1985. Reflecting the increasing urbanization of Latin America, the foundation will place a priority on supporting projects that promote employment, income generation and work skills. Grant-making will be allocated in FY 1987 as indicated in an accompanying chart, which I request be made part of this hearing record.

Mr. OBEY. Okay.

Ms. SZEKELY. Also included in the foundation's goals are plans to reduce further operating costs and, most importantly, to reduce the length of time required to approve grants, while accelerating the distribution of funds to grantees.

We are enormously proud of our new monitoring system. We are able to provide timely assistance when and as it is needed.

Our fellowship program is on target and is being refocused to better serve our grantees as well as the developing world.

I thank the members of this distinguished committee for supporting the Inter-American Foundation's mission during these past 15 years. The foundation has demonstrated clearly and effectively how development assistance can contribute to economic and social advancement by drawing on the determination and commitment of people willing to help themselves.

Our challenge is to become even more effective, to make better use of our limited funds, to learn from experience, and to make this learning and knowledge a development resource every bit as important as financial capital.

The foundation must continue to be an innovator as it goes about its daily business of making a real difference in the lives of the poor of Latin America and the Caribbean.

I pledge to you that I will do all that I can to carry on this important mission and to make the foundation worthy of your continued support.

Mr. Chairman, I would the be most happy to answer any questions which you and the other members of this distinguished subcommittee may have. Thank you.

Mr. OBEY. Okay. Thank you.

[The prepared statement of Ms. Szekely follows:]

STATEMENT OF
DEBORAH SZEKELY, PRESIDENT
INTER-AMERICAN FOUNDATION

BEFORE THE

SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

ON APPROPRIATIONS FOR
FISCAL YEAR 1967

April 9, 1986

INTRODUCTION

Mr. Chairman, it is an honor to be here to testify before this distinguished Subcommittee on Foreign Operations. It is also a special pleasure for me, as President of the Inter-American Foundation, to tell you about our work in Latin America and the Caribbean. You have invited me today to review the Foundation's Fiscal Year 1987 request for $10.8 million. This sum will be in addition to the equivalent of $16 million in local currencies from the Social Progress Trust Fund (SPTF). Thus, our programs in support of grassroots development initiatives in Latin America and the Caribbean will total $22.1 million. The Foundation will limit overhead costs to no more than $4.7 million, down from $4.8 million estimated for this year. You have my assurances that we will continue to seek ways to trim these costs even further.

Last week, the Foundation celebrated its 15th birthday with events here in Congress and at the State Department. What has the Foundation been all about? After being its president for a year and a half--a period of listening and learning--I can honestly state that:

> The Foundation is about many things, but above all about stimulating the birth and growth of Latin American and

Caribbean private development organization in programs they themselves design and direct. These organization can offer real answers to many problems of the poor. They have also provided the Foundation with another precious resource in addition to U.S. taxpayers' money--knowledge about local, private, grassroots development.

The Congress has been generous with the Foundation over the years. Should it continue to support the Foundation? My answer is a definate "yes". My testimony today will illustrate why this is so.

THE IMPORTANCE OF PRIVATE DEVELOPMENT

Latin American and Caribbean governments continue to experience great difficulties in achieving their goals for development. Moreover, during the past few years, the limits of governments have become even more evident as economic conditions have deteriorated and as debt, adjustment and austerity have placed further burdens on the poor.

Despite the severe problems, the indigenous private development organizations of Latin America and the Caribbean have proven to be innovative, efficient, persistent, and committed to working to better the lives of the poor. While governments and their programs have come and gone, these private organizations have worked with continuity on the long-term problems of underdevelopment. Moreover, the success of the best of the private programs can be traced to the direct involvement of the poor as actors, not merely targets of assistance.

As an important part of the framework of democratic institutions, these private organizations permit people to exercise responsibility for local affairs in two ways: 1) by showing people at the grassroots how to organize to better their lives, and 2) by helping businesses, professional, and other community leaders to assist marginal groups in non-paternalistic ways. These private voluntary organizations often constitute the only "ladders of communication," from the bottom up, from the grassroots to national governments. Working together, these organizations serve as brokers between government and society with the potential to cement significant, peaceful and lasting change.

THE ROLE OF THE INTER-AMERICAN FOUNDATION

Fifteen years ago, a wise Congress created the Inter-American Foundation. I believe that if it had not been created then, Congress would do so now.

The Foundation is an organizational experiment within the foreign aid community, building the infrastructure of Latin

American and Caribbean private development organizations during each of the last fifteen years. Through its experimental approach to project selection, the Foundation has answered questions and tested hypotheses about what kind of funding is most effective in helping people better their lives. Although the world is not a laboratory, the Foundation conducts, in partnership with Latin Americans and Caribbeans, an effective approach to learning through funding which has improved life for a great many people in the hemisphere. It has also provided the Foundation with a store of time-tested knowledge which we are now in a position to share with the development community.

Experience — The Foundation is building an ever expanding network of private development organizations. Today, hundreds of organizations state that their existence and success was made possible by Foundation support at critical junctures, when local resources were inadequate, non-existent, or unavailable to support new ideas.

Sole U.S. Assistance — The Foundation is the only U.S. Government agency, representing the good will of the American people, active in development assistance in the six Latin American countries of Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela. In these countries reside *75 percent of the region's population* and many of the largest concentrations of the very poor in the hemisphere.

People-to-People The Foundation is the only U.S. Government agency working *exclusively* on a people-to-people basis, supporting private organizations in Latin America and the Caribbean.

Cost Effective The Foundation has been recognized by the Congress and GAO as having one of the most cost-effective and productive foreign assistance programs. Great and visible results have been achieved with a budget that represents *less than one-half of one percent of U.S. foreign assistance programs* and an average overhead of 15 percent.

Positive Evaluations The Foundation has received positive appraisals from U.S. Government and private evaluators.

Multiplier Effect The Foundation funds projects only where local resources are committed. Every dollar granted by the Foundation complemented $1.23 from the recipient organizations. In the Dominican

Republic, each $1.00 in grant funds was matched by $6.00 in cash contributions, credit, and services from Dominican sources. This multiplier effect does not cease but continues to grow after Foundation funding ends.

Largest Grassroots Development Fellowship Program

The Foundation has established the largest U.S. fellowship program for U.S. and Latin American scholars concerned with grassroots developmenmt.

Communicating Lessons Learned

Essential to the operations and effectiveness of the Foundation is its evaluation, learning, and dissemination program which seeks to glean lessons from the projects it supports and to share the information with the development community.

THE FY 1985 PROGRAM

The Foundation's program reached more people during 1985 than ever before. Program funding was the highest in Foundation history: $24.2 million. Yet, while the Foundation's support to the poor increased substantially, its overhead costs remained low--15 percent of its total budget.

Grassroots organizations supported by the Foundation have proven to be innovative, efficient and dedicated.

In spite of the grave regional economic crisis, these grassroots organizations in 1985 matched every dollar contributed by the Foundation with $1.56--the highest counterpart ratio in the Foundation's history.

The largest share of Foundation resources in Fiscal Year 1985, 44 percent, went to rural development projects. The principal beneficiaries were small-scale farmers seeking to increase their productivity.

Twenty-one percent of the Foundation's FY 1985 budget supported training and educational programs. A high proportion of these grants financed managerial training and leadership education.

An increasing amount of funds, 14 percent in FY 1985, were made available to small urban businesses and organizations that assist such businesses. These businesses generate new sources of income and employment for the urban poor.

Another 14 percent of the FY 1985 budget was applied to projects in community services. These funds were used to increase the poor's access to health care, housing, legal protection and basic foodstuffs at fair prices.

A small part of the Foundation portfolio supported grassroots groups working to create self-esteem by invigorating the region's traditional arts and culture as springboards to development.

Noteworthy Projects

Visiting the projects that the Foundation supports, I find energetic and optimistic people who refuse to give up, who insist upon not only surviving but persist in seeking a way out of their dire poverty. The Foundation has lived and grown along with these people. The constants have been their courage and determination to face their problems and do something about them.

Among the many innovative and noteworthy projects which the Foundation supported in the past year are four favorites:

-- Probably for the first time in history, green iguana eggs are incubating in a hatchery. Nearby, farmers are planting trees that will feed and house the infant iguanas. This is a project of the Fundación Pro Iguana Verde in Panama to help poor people raise the green iguana for home consumption. This traditional source of protein-rich food has long been an endangered species, as has its natural habitat, the tropical forest. With the forest cut into firewood, the iguana lost its source of food and its hiding places. The common iguana soon became a rarity. The goal of the project is to show how a new synergy can be struck among the people, the green iguana, and the forest.

-- The Haitian Catholic Church started in 1985 a nationwide literacy program, the first of its kind in a nation with the highest illiteracy rate in the hemisphere. This program is conducted in Creole -- the only language that all Haitians speak and understand. All previous literacy programs were conducted in French -- the official language which is spoken by less than 8 percent of the population. The Church has mobilized its entire system of human resources and physical facilities so that three million people may be reached during the three-year project. Start-up funding by the Foundation helped the Church launch its program which is now receiving funds from other international donors.

-- A trip last November took me to Dominica, where I met a most impressive group of women, the Hucksters Association. These women, chiefly heads of households and most with several children, market staple goods among the islands of the Eastern Caribbean with a great deal of skill and knowledge. The Association provides imprinted shipping boxes and teaches its members quality control, proper packing, and simple accounting techniques. It also publishes a newsletter on crop conditions in the islands. Priority space and standard fees have been negotiated for travel on inter-island schooners. Members are assisted with the preparation of export-import documents and access to a small revolving loan fund is provided. During my visit, the Association discussed their future plans for insuring the safe and timely arrival of their perishables. They have proved so effective in upgrading inter-island commerce that the Government of Dominica has provided them with a warehouse, and Guadeloupe and Martinique have ceded to the Hucksters Association exclusive commercial landing rights.

-- Along Peru's desert coast, near Chiclayo, is an association of beekeepers, whose 500 members are among the region's poorest. Through a grant from the IAF, the Fundación para el Desarrollo Nacional has provided credit to buy hives and equipment, technical training in beekeeping and honey extraction, and instruction in accounting, literacy, nutrition, and hygiene. The

> honey is collected from the producers by donkey cart and then trucked off to Chiclayo for filtering, testing, and sealing in drums for the market beyond. On the day I visited the project, about 5,000 gallons of honey were ready for marketing. The project has given rise to several local micro-enterprises. One is a carpentry shop for building hives and frames. Another sews the coveralls and wide-brimmed hats worn by the beekeepers. A sheet metal shop with 12 employees produces the honey extractors and smokeguns. A few years ago beekeeping was unknown in this area. Honey production has enlivened the local economy.

These four projects illustrate how grassroots groups offer a simple, but powerful proposition: change is possible, opportunities can be created, and initiative can improve the way things are done. Foundation grants provide not only seed capital but simultaneously reinforce initiative, entrepreneurship, cultural values, self-confidence, and self-esteem. As I look to our own future, my fond hope is that we can continue to provide consistent and timely assistance to the people who share our hemisphere.

GOALS FOR FISCAL YEAR 1987 AND BEYOND

Ways of Assisting

The Inter-American Foundation can enable private citizens and organizations, commercial and governmental institutions, and multilateral and bilateral donors to gear their operations to promoting grassroots development in Latin America and the Caribbean. As a pathfinder in grassroots development, the Foundation will place renewed emphasis on the following objectives:

-- Learning and Dissemination: During its fifteen years, the Foundation has become a treasury house of development experience. To capture the essence of what it has learned, the Foundation is refocusing its energies to share its knowledge with other development organizations. An Office of Learning and Dissemination has been created to study and provide documentation on its projects. Thus, as past mistakes are avoided and current approaches refined, the best of the innovative ideas and methods can be shared and used by others to help all groups working with the disadvantaged.

The 24 Foundation Field Representatives travel four or more times a year to Latin America and the Caribbean. The

Foundation relies extensively on their reports of important development trends and noteworthy projects to improve and mold our responsive work. Foundation Representatives are encouraged to chronicle their own experiences in the Foundation's Grassroots Development Journal which highlights emerging development issues and specific project experiences. By expanding publication from two to four times a year, the Journal will provide a transnational network for organizations working in development, encourage them to share with one another important learning experiences, and stimulate grantee organizations in their own thinking.

In this same spirit, Foundation reports on "lessons learned" from grassroots projects will be communicated to many other development institutions because the problems of the poor in the Third World transcend country and culture. Comparative studies on programmatic impact will be carried out with major agencies such as AID, the World Bank, and the Inter-American Development Bank, which channel resources largely through governments. Special attention also will be devoted to communication with private voluntary organizations, governmental institutions, the Central American Development Organization (CADO), and local business, civic and labor organizations in Latin America and the Caribbean.

The Learning and Dissemination Office will develop a computerized project library to store project data generated by Foundation grantees, staff, and other development specialists. The library is scheduled to be operating by FY 1987, and will be available for use by development organizations, research centers, and educational institutions. Most important, the staff will be able to cross-reference each new proposal with the Foundation's own accumulated project experience.

-- Building Private Infrastructure: The Foundation will continue its core program and undertake future experiments in strengthening and expanding the work of a dynamic network of private and volunteer grassroot development organizations. With IAF support, private organizations can become major actors in national development, strengthen their institutional capacity, leverage national and international resources, and build an influential network of leaders of grassroots development in their own countries.

-- Income Generation: The Foundation will give added emphasis to local production and marketing of goods and services in small-scale agriculture and micro-enterprises in the countryside, villages, secondary cities and urban areas. The people involved will be of low or no income: small farmers and entrepreneurs, women heads of households, craftspeople, fishermen, and indigenous groups.

-- Human Resource Development: For persons with little education, programs in vocational training, management, financial administration, and health services will be highlighted.

-- Increased Technical Assistance and Program Assessment: Projects will be clustered geographically for ease of monitoring and technical assistance. Grantee organizations will be encouraged to provide one another with technical assistance. The Foundation will assess each project as part of a larger process, not as an isolated event. In-country cadres of technical consultants, retained by the Foundation, will assist grantees to improve project implementation and will generate information about grassroots development. The Foundation will undertake evaluations of individual projects as well as clusters of projects falling within the Foundation's institutional priorities. Baseline and follow-up surveys are planned on the employment implications of micro-businesses in the informal sector, the nature of private development organizations, the characteristics of successful grassroots groups and the intermediary service organizations which support them.

-- Innovative Approaches: The Foundation will complement its responsive grant-making to the needs of the applicants by further testing loan mechanisms with repayments made to local credit organizations, loan guarantee, and credit leveraging mechanisms. Technical in-country support systems will be used for proposal assessment, project monitoring, and identification of technical assistance needs. We hope to take a more active role in disseminating project ideas while encouraging private citizen involvement in development programs.

SOCIAL PROGRESS TRUST FUND (SPTF) AGREEMENT

Mr. Chairman, I am pleased to report that an agreement has been reached with AID and the Inter-American Development Bank allocating Social Progress Trust Funds to the Foundation for calender years 1986 through 1988. The SPTF was established in 1961 as a loan repayment vehicle for those countries receiving United States assistance via the Alliance for Progress. Briefly, based on our new agreement, the Foundation will receive approximately $16 million annually in Social Progress Trust Funds over the next three calender years.

The total sum available to the Foundation under this new agreement equals $48.6 million, including $875,000 U.S. dollars and $2.2 million freely convertible Bolívares. This Venezuelan currency will also be used to support projects in countries in which SPTF is unavailable.

SPTF funds are not available in Mexico, and are available in considerably diminished amounts in Costa Rica, the Dominican Republic, Haiti, and Paraguay. You may be sure that the Foundation will make every effort to manage its SPTF and appropriated funds in a manner that will maximize their effective and productive use.

THE FY 1987 PROGRAM

The Foundation's FY 1987 program is based on a budget authority of $10.8 million and 67 full-time equivalent (FTE) personnel. As noted, the Foundation will also have available approximately $16 million in Social Progress Trust Funds. Greater detail on the Foundation's activities, including a description of each project funded during 1985 and budget and program data for FY 1987, is contained in the Foundation's Congressional presentation report submitted to this distinguished Committee on February 6.

The FY 1987 program projects a total of $22.1 million plus available reobligation authority to be used for grants throughout Latin America and the Caribbean. These sums will enable the Foundation to support a program second only to the record level of FY 1985. Reflecting the increasing urbanization of Latin America, the Foundation will place a priority on supporting projects that promote employment, income-generation and work skills in the region's cities. Taking into account SPTF availabilities and country conditions, grant-making funds in FY 1987 will be allocated as follows:

- -- approximately $2.0 million in Brazil and Argentina, where SPTF resources account for the entire program;
- -- approximately $1.6 to $1.8 million for Colombia and Peru;
- -- Between $800,000 and $1.2 million is allocated for each of the following countries: Bolivia, Chile, Mexico, Panama, and Ecuador;
- -- between $400,000 and $800,000 is allocated for each of the following countries: Uruguay, Haiti, the Dominican Republic, Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua, Venezuela, and Paraguay.

The Foundation plans to expand its Central American portfolio during FY 1987 by maximizing the use of Social Progress Trust Funds.

In March of 1985 the Foundation reorganized its operations to focus on individual country programs instead of regions. Foundation Field Representatives now work in eight geographic offices, with a central program office to supervise their activities. The reorganization increased the number of Field Representatives and, at the same time, improved grant monitoring.

Included in the Foundation goals for FY 1987 are plans to:

1. Further reduce operating costs and the length of time required to approve grants while accelerating the distribution of funds to grantees.
2. Continue to identify and support projects which use innovative approaches to help poor people help themselves.
3. Study how the poor cope with recession, austerity, and reduced government assistance.
4. Monitor Foundation-supported projects closely and share lessons learned with other development organizations. The Foundation's Journal, Grassroots Development, to be published quarterly, will be used to disseminate our experience for the benefit of grantees and other development organizations.
5. Expand, to the degree appropriate, the use of in-country speicalists and services so that technical assistance can be made available to the grantees when and wherever needed. These specialists will visit grantees quarterly to monitor progress and report

findings to the Foundation. The Foundation considers the use of in-country specialists one of its most important innovations in its efforts to maximize results at least expense.

6. Improve its Grant Management System (GMS) through increased staff training and the use of more versatile computer programs.

7. Award approximately 35 fellowships for masters and doctoral level students from U.S. universities for field research in Latin America and the Caribbean on grassroots development issues. Some 10 awards will be made to Latin and Caribbean development specialists and researchers for advanced study in U.S. universities. The newly formed Fellowship Advisory Committee will provide guidance and expert advice to ensure that the Foundation's fellowship programs continue to complement the Foundation's learning agenda. For the benefit of the development community, a Fellowship Directory will be published to identify researchers working in the field. A fellowship Reader will be published to digest research findings for general audiences.

CONCLUSION

I thank the Members of this distinguished Committee for supporting the Inter-American Foundation's mission during these past 15 years. The Foundation has demonstrated clearly and effectively how development assistance can contribute to economic and social advancement by drawing on the determination and commitment of people willing to help themselves.

Our challenge is to become even more effective, to make better use of our limited funds, to learn from experience, and to make this learning and knowledge a development resource every bit as important as financial capital. The Foundation must continue to be an innovator as it goes about its daily business of making a real difference in the lives of the poor of Latin America and the Caribbean.

I pledge to you that I will do all that I can to carry on this important mission and to make the Foundation worthy of your continued support.

Mr. Chairman, I would be most happy to answer any questions which you and the other Members of this distinguished subcommittee may have.

Thank you.

Mr. **Obey**. We are beginning a number of votes, so I will try to keep this very short.

POLITICIZATION OF IAF

As you know, I raised a number of questions with you last year about the attempt or, to be fair about it, the concerns that have been expressed in some quarters about potential attempts to politicize the operation by your board.

How many meetings have you had since June?

Ms. **Szekely**. Two.

Mr. **Obey**. Board meetings.

Ms. **Szekely**. Two. In June and December.

Mr. **Obey**. Has Board Member Phillips made an effort to increase funding through the Latin American business sector rather than directly to the poor?

Ms. **Szekely**. Not really. He's been very busy with starting up a new business, so there hasn't been a great deal of contact with Mr. Phillips.

Mr. **Obey**. I have two questions I will submit for the record on that.

Have you received instructions from any board members to make a change in the job classification of foundation representatives?

Ms. **Szekely**. Yes. It's been discussed at board meetings. To be able to have a broader experimental base for looking at projects, we should have people with more diverse skills. And we are seeing the job classification as something that would read "foundation field representative," rather than simply "social science analyst." So we are really talking about switching the second part of the job classification title to the first part, so that the in bold type it will say "foundation field representative", and then the rest will follow.

There has been discussion of this, and I think the Board members are quite content with my suggestion.

In the 18 months I have been at the foundation, we have only hired one field representative. When we have an opening, we have a peer review system. The staff are very much involved in the recommendations, because everyone works closely together in the various countries and areas. I don't see any major change in that area.

Mr. **Mashek**. May I add something? There is a lot of confusion on that point, because technically under the personnel system of the Civil Service, there are several personnel categories. We had installed in 1978, after considerable review, something called "social science analyst." The name suggests something narrower than it really is. We could use something similar to what AID uses, "international development specialist." It really wouldn't make a whole lot of difference, because these are technicalities under the Civil Service system. Both past chairmen of the board and the consultants who evaluated the foundation several years ago, all recommended that we get a greater diversity in skills, as a matter of fact. That continues as it has been for 10 or 15 years to try to have as well rounded a staff, a selection of skills, as possible.

Mr. **Obey**. Could the employment of existing staff members be jeopardized in any way by the——

Ms. **Szekely**. No.

Mr. **Obey**. Have you reactivated your advisory board?

Ms. **Szekely**. Yes. The Board appointed a new chairman, Bill Dougherty. This last board meeting was cancelled, but its basic theme was going to be——

Mr. **Obey**. Have any other members been named?

Ms. **Szekely**. No. It still includes our two former chairmen as honorary members. There have been discussions, names have been circulated, but decisions haven't been made.

Mr. **Obey**. Will any responsibilities for grant-making be taken from your professional staff and vested in the advisory board?

Ms. **Szekely**. In no way, shape or form.

CONTRACTING WITH HOST COUNTRY NATIONALS

Mr. **Obey**. Is it true that the foundation is contracting with host country nationals to do project identification and monitoring of work?

Ms. **Szekely**. Yes. And I think that's a very important area.

Mr. **Obey**. Isn't that the job of your field staff?

Ms. **Szekely**. We have one staff person in a country. Some of the larger countries have two staff people. Making four trips a year to the country. To be able to keep careful watch of the programs, it helps to have someone identify some possible projects for IAR support, but no decisions or fundings are made by contractors. We are trying various forms of in-country technical services to enable us to do a better job for the grantees, better selection. And I think this gives us better opportunities at very economical expense.

Mr. **Obey**. We're going to be keeping better watch on that as well.

Ms. **Szekely**. That would be fine. We'll be glad to send you any information you would like.

EVALUATION OF IAF

Mr. **Obey**. In March of 1984, an outside evaluation of the Foundation was completed, and among other things it called for closer cooperation between IAF and the other development agencies, including the Peace Corps.

Last year you indicated that some of the recommendations made by that evaluation were being implemented, but that others were being studied further.

Two questions: Have you taken any steps in the past year to either implement or reject any recommendations of that evaluation? And in your best judgment, have the recommendations of that evaluation in any way constrained IAF's ability to fulfill the original legislative mandate of funding grassroots development projects?

Ms. **Szekely**. Well, there are several answers, so I'll have to jump around a little bit.

Number one, that evaluation really allowed me to start my job well, and I use it and refer to it and quote it. It's very valuable and a very important document for the Foundation, because the consultants identified vacuums and places where things can be done better. Consequently we have gone from four Regions to Country Offices, to smaller pyramids. Instead of three big pyramids that were unwieldy, we now have eight different regions and it works much more effectively.

With the Peace Corps, actually I met with Loret Ruppe about three weeks ago again. We have signed not only a general agreement, with the Peace Corps but we have individual agreements in four countries. A number of good ideas have emerged from Peace Corps people, and we use Peace Corps people to help us in some of our projects. A construction project for women in Jamaica has functioned particularly well because we had a Peace Corps volunteer, a young man from Wisconsin to work with these ladies.

[Laughter.]

Mr. OBEY. I'll withhold judgment on that until I know where he's coming from.

[Laughter.]

Ms. SZEKELY. So we work quite closely with the Peace Corps. I also chair a Development Breakfast Group that meets the second Tuesday of every month here in Washington, and we have between eight and twelve people from the different organizations attend. Loret attended the January meeting, and we discussed development issues and ways we can work and cooperate more effectively.

We really are trying to do one wheel, not many wheels. And I haven't found any constraints in the report.

Mr. OBEY. I have several other questions to ask, but I'm out of time. Given this vote, we have one more group we have to go through before noon. So I thank you for your time.

Ms. SZEKELY. I'm available at any time to answer them. Thank you very much.

Mr. OBEY. Thank you.

[Recess.]

Questions for the Record Submitted by Mr. Obey

1. What is the current job classification, for IAF Representatives? What is being suggested as a new classification? What is the rationale for this change? Is a change justified in your view? Can't you achieve the same objectives under the current classification? The IAF has been a model aid organization with outstanding personnel; if it ain't broke, why fix it?

The current job classification for Foundation Representatives and Senior Foundation Representatives is the GS-101 Series, Social Science Analyst. The GS-136 Series, International Cooperation Specialist, was considered as a possible alternative classification. It is currently being used by USAID.

A. After in-depth review, I am satisfied that the current classification system is adequate to meet the hiring needs of the Foundation. It offers enough flexibility to hire, when a position is open, a broad range of candidates from the social sciences as well as those with backgrounds in business, management and finance—skills which the Foundation's Board of Directors believe would be of great value to the Foundation in carrying out its mandate.

The better reflect the true nature of the work of the field staff, the job title for the GS-101 Series classification is being changed from that of "Social Science Analyst" to "Foundation Representative". This will make clear to candidates for open positions that the job of the field staff is to first foremost represent the Inter-American Foundation in its efforts to support the grassroots development efforts of the poor of Latin America and the Caribbean.

2. Were you visited by a Senate staff member earlier this year with reference to Foundation funding in Central America? What issues were raised? Were any objections or requests made regarding specific projects or in any specific countries? Were any attempts made to interfere with the IAF's independence in funding? What was the outcome of the meeting?

A. I was visited by a Senate staff member on March 5 of this year. We briefly discussed our portfolio in El Salvador and Nicaragua. He requested the opportunity to review the file for one proposed grant in Nicaragua, NC-130, which would provide monies to an agricultural school in that country. Most of the conversation, however, concerned Foundation work in Peru and Chile, two countries that the staffer had recently visited. He had looked at IAF supported projects while in both countries. He raised concerns about one IAF grantee in Cuzco, Peru, which he believed mistakenly was run by a group of Dominican priests in disfavor with the current Bishop of Cuzco. Since I had recently returned from Cuzco and had visited the project and spoken with the Bishop, I was able to say that his concerns were misplaced and that the priests to which he made reference were not receiving support from the IAF.

At no time was any attempt made to interfere with the IAF's independence in funding.

As with all congressional visitors to the Foundation, I concluded the meeting by offering to keep him informed of our activities and answer any questions he might have in the future about the Foundation's work.

3. Has your Board or any of its members urged you to increase or decrease funding in any Central American countries, particularly Nicaragua and El Salvador? If so, what reasons were given? Is there any basis, in your opinion, for the expansion or contraction of Foundation funding in any country other than the existence of capable and financially needy development organizations?

A. Central America poses a number of important issues for the Board just as it does for the staff. For example, there is always the issue of staff safety in countries such as Nicaragua and El Salvador. As you are probably aware, the Board decided in 1980 to suspend our operations in El Salvador due to the level of political violence, and only decided in November, 1984 to renew our support of private development organizations. Since 1985 we have financed seven activities amounting to $498,853. Although this figure may appear low, the average annual obligations in El Salvador between FY 1973 and FY 1985 was $260,000. Our re-entry into El Salvador after a five-year funding hiatus has been slow and cautious; however, we feel that we will be able to expand our program over the next three years.

The Board would like to see us expand our program in El Salvador, particularly since we have $6,924,000 available in Social Progress Trust Funds for the next three years, but has urged our staff to be very cautious and not endanger themselves or those whom we wish to support. As with any new venture, the start-up time is slow. We have allocated a full-time staff member to El Salvador and have every hope of supporting a diverse and growing number of private organizations.

It has been and continues to be a routine policy of the President of the Foundation to consult with the Board on any projects which bring a particular political sensitivy to them or which is over $1 million. In the case of Nicaragua, the Board and staff are reviewing whether we can work effectively in that country. We have a proposal before us, NC-130, from the Esteli Agricultural School requesting $92,000 to strengthen and expand a training program for technicians in dairy farming, breeding, range management, and cheese processing.

Members of the Board have on occasion referred proposals to the Foundation. As with the review of all projects, these proposals have been forwarded to the appropriate Foundation Representatives for these review and analysis. These proposals are given the same analysis and treatment as any other proposals we receive. They are reviewed against our standard program criteria and measured carefully against how well they assist the poor to improve their own lives.

4. Have you reactivated your Advisory Board? Who is Chair? Have the other members been named? Will any responsibilities for grant making be taken from your professional staff and vested in the Advisory Board?

A. The Advisory Council was created pursuant to the Foundation's enabling legislation (22 U.S.C. Sec. 290f). All members are appointed by the Board of Directors. The current Chairman of the Advisory Council is William Dougherty, Executive Director of the American Institute for Free Labor Development (AIFLD) who was appointed to that position by the Board of Directors at its meeting in June 1985. At present, the Advisory Council has three other members, John Duncan, CEO of Cyprus Minerals, and Gus Hart Peter Jones, former IAF Chairmen of the Board. Other members have not yet been named although the Board did discuss procedures for the nomination and selection of Advisory Council members at its December 1985 meeting. I expect that additional Advisory Council members will be appointed and that a meeting of the Council will take place during this calendar year.

Finally, as I testified before the Subcommittee, the Advisory Council is an advisory body to the Board of Directors. According to the Foundation's enabling legislation, the Board shall "from time to time, cousult with the Council concerning the objectives of the Foundation." It is not vested with functional responsibilities for grant making or grant review. Therefore, in my view it would not be in keeping with the Foundation's enabling legislation for the Advisory Council to perform the functions of the Foundation's Board and professional staff. This includes grant making.

5. I understand that the Foundation is contracting with host-country nationals to do project identification and monitoring work. Doesn't this add another layer of cost during a period of budget austerity? Have you done enough experimentation to justify such a major step? What indications do you have that this is a more effective and economical approach?

A. The use of In-Country Services (ICS) is a Foundation activity that I consider to be especially innovative and important for our future development efforts.

Soon after becoming President of the Foundation, I realized that one of the IAF's major management problems was the limited staff in relation to the vast number of projects and countries we serve. A Foundation representative, for example, is generally involved in analyzing and documenting dozens of new funding requests each year. At the same time, the representative is responsible for monitoring an average of 50 projects approved in previous years, conducting evaluations of selected projects, and maintaining relations with Embassy, USAID and other development agencies.

In its early years, the Foundation stressed a hands-off approach in its relationship with grantees. This was due to the conviction that grassroots development, to be effective, required the free and independent implementation of a project by a group. Success would lead to strengthening the organizatioin's own capacity to undertake additional and more ambitious projects. Failure, hopefully, would lead to learning and renewed efforts on more solid ground.

Gradually, as the Foundation gained more experience in funding grassroots and private development efforts in Latin America, it become apparent that timely identification and application of technical assistance could help a group to overcome unforeseen problems which could seriously jeopardize a project's outcome. In many cases, however, such problems go undetected and unreported because of limited Foundation coverage in the field, resulting in failures or setbacks that can seriously affect the precarious income levels of the poor. In most cases, these problems are of a technical nature that can be resolved given the presence of specific expertise.

Faced with these problems, I encouraged field staff to utilize the skills of host-country professionals, who are highly qualified, to provide complementary services to project beneficiaries and grantees in such areas as technical assistance, management training, accounting, project analysis, networking, and evaluation designs.

Although our experimental efforts with these in-country services began just two years ago, we are already witnessing substantive benefits for Foundation grantees.

For example, an IAF-funded cooperative of honey producers in Peru was confronted with serious declines in production because of an unusual honeybee diesease. The technicians contracted by the IAF to provide project assistance were notified and were able to initiate steps to eliminate the disease. Since then, honey production has increased and project activities are proceeding as expected.

Other such incidents, involving either technical problems, poor management, unexpected personnel changes, the need for marketing or financial analysis studies, etc., have been identified by grantees and subsequently resolved when help has been provided upon request from host-country professionals.

This, in-country services can have a positive effect on the outcome of IAF grants. Viewed from this perspective, they are cost/beneficial in four important respects:

(1) They help avoid losses on the part of grantees by addressing problems that may have gone undetected by the Foundation.

(2) They afford systematic information on project activities that will form the basis for future learning and dissemination efforts.

(3) Local technicians are able to identify grantees that would benefit from meeting and learning from the experiences of other grantees. This has encouraged increased amounts of networking and exchanges among our beneficiaries.

(4) The work of local technicians in upgrading and standardizing grantee bookkeeping systems has resulted in a substantial savings in the cost of project audits required by IAF.

In terms of relative cost, in-country service systems represent only three to eight percent of the total value of a country portfolio. The average cost of the 13 in-country services is currently $85,000.

In summary, In-Country Services are an integral part of the Foundation's experimental approach to development. They constitute an innovative and cost effective way to improve the Foundation's support of grassroots efforts without altering its basic hands-off, responsive philosophy. The use of host-country services represents a recognition on the part of the Foundation that locally-staffed technical assistance can provide an important complement to IAF support of grassroots initiatives. The purpose is not to guarantee success, but to lend a timely and potentially critical hand to grantees who need and request help for their development efforts.

WEDNESDAY, APRIL 9, 1986.

AFRICAN DEVELOPMENT FOUNDATION

WITNESS

LEONARD H. ROBINSON, JR., PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

Mr. OBEY. We will now discuss the Fiscal '87 request for $6.5 million for the African Development Foundation. The Fiscal '87 request involves an increase of $2.8 million over the '86 level of $3.7 million. The committee will review the justification for the increase.

Our witness for the African Development Foundation will be Mr. Leonard H. Robinson, Jr. Mr. Robinson, go ahead and tell us whatever you want to tell us.

Mr. ROBINSON. Mr. Chairman and members of the subcommittee, I am honored to appear before you today to report on the progress of the African Development Foundation.

In May 1985 when I testified before you and your committee, Africa, as I am sure you recall, was faced with a devastating drought which precipitated famine, death, and deforestation in some 26 countries. With the world responding to this immediate need in an unprecedented manner, a catastrophe of even larger scale was averted.

To safeguard against a recurrence of these problems, lasting solutions must be found, solutions which can withstand the onslaught of drought and other disasters. Careful planning for the long-term development made at the village level can serve as a benchmark and guiding light for determining appropriate solutions.

The African Development Foundation accepts the challenge given to it by the Congress to take the lead in the support of development activities at the grassroots level essential in helping to accomplish this important goal.

In February 1986, ADF celebrated its second birthday. In that short time, we have funded 65 projects initiated by grassroots organizations and individuals in 14 countries which are geared to increasing self-sufficiency and improving living conditions. At this time, I would like to highlight one of these projects for you and the members of the committee.

The NGK water project is located in the plains below Mount Kenya, the second highest mountain in Africa; 1984 was a year of terrible drought throughout Kenya, and people in this area lost nearly three-fourths of their livestock. Such conditions prompted the villages of Njoguini, Gitero, and Kabati to come together as the NGK Self-Help Committee to assess their long-term water needs for both domestic and agricultural use. The nine-member committee, made up of three members elected from each village, was formed to address the problem. In cooperation with the Ministry of Water Development, the NGK Committee decided that the best and most realistic answer to their water problem would be to provide irrigation for at least one acre for each farm and to build water-holding tanks for domestic use.

There are currently 350 farms in the three-village area with an average of six persons per farm or 2100 people. But this figure is expected to rise to 4600 people by the year 2006, and the present livestock figure is expected to rise from 900 to 1500 in the same period of time.

NGK's proposal to ADF asked for funds to assist them in building a gravity distribution water system or pipeline for irrigation with additional water-holding tanks. After receipt of an official application, a site visit, and considerable review, a process ADF implemented and completed in less than four months, ADF awarded a grant to NGK to purchase materials for pipeline construction.

Water is now being piped from a rain forest on Mount Kenya through the central plains area to the three villages. The total project cost is $312,000, with ADF's contribution at $240,000. All additional funds and labor are being furnished by the villagers themselves, which are two of the most impressive facets of this project.

Faced with major constraints on several occasions, NGK demonstrated a capacity to meet them head on and developed creative ways to overcome them. For example, most village members of the project had to walk twelve miles to get to and from the site each day, the worksite each day.

Second, a significant portion of the pipeline's construction required the removal of large boulders which, under normal circumstances, could only be moved by heavy-duty equipment and explosives. As these resources were not available, NGK members used hand tools to break the boulders into sizes which could be carried by two people. The more substantial boulders were broken through the use of thermal shock, a method which required heating the rocks with diesel paraffin and firewood and then pouring cold water on them.

The ADF-sponsored project will assure NGK villagers a dependable supply of water for domestic and agricultural use, and it is estimated that the average annual income of farmers could more than triple from $383 per annum to approximately $1186 per annum as a result of the impact of irrigation.

A former Peace Corps volunteer has been serving as the technical advisor for the pipeline construction. A local Kenyan technician was hired as the co-manager, and after a period of management training, will take over as the permanent project manager.

A recent editorial in "The Washington Post" by Donald McHenry and Lawrence Eagleburger, Co-chairman of the Committee on African Development Strategies, states, and I quote: "The support we give must be money directly linked to policy reforms in the recipient countries and specifically earmarked for high-priority investments that will have high rates of return. In other words, the cash we provide must be tied to programs that will raise living standards. They must be carefully planned and monitored to make certain that they are used for the designated purposes and not to make rich people richer," end of quote.

ADF sincerely believes that one of the most effective approaches to foreign assistance is that which is focused on and responsive to people at the grassroots level. Positive response stimulates incentive and discourages people from looking for handouts. I believe this philosophy is shared by most donor organizations, as well as members of Congress.

In Fiscal Year 1987, the Foundation will place emphasis on refining financial and administrative policies and procedures and in, the systematic evaluation of ongoing projects.

Data collected through audit, monitoring, and evaluation activities will be analyzed and processed into policy and program briefs, as well as through ADF's new journal entitled "Advance" and disseminated to the African and international development communities.

We believe the ADF is beginning to make a difference and a contribution. The track record thus far speaks for itself.

I'd be very happy to answer any questions that you may have at this time.

[The prepared statement of Mr. Leonard H. Robinson, Jr. follows:]

AFRICAN DEVELOPMENT FOUNDATION

Office of the President

Leonard H. Robinson, Jr.

STATEMENT OF LEONARD H. ROBINSON, JR.
PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

TESTIMONY BEFORE HOUSE SUB-COMMITTEE ON FOREIGN OPERATIONS
APRIL 9, 1986

Mr. Chairman and Members of the Sub-Committee, I am honored to appear before you today to report on the progress of the African Development Foundation.

In May 1985, when I testified before you and your Committee, Africa, as I am sure you recall, was faced with a devastating drought which precipitated famine, death and deforestation in some 26 countries. With the world responding to this immediate need in an unprecedented manner, a catastrophe of even larger scale was averted. But serious remnants from the devastation continue. In most of the affected countries, the forests must be replanted, farming mechanisms must be restored so that food production can be increased, nutrition must be balanced, and education needs must still be met. To safeguard against a recurrence of these problems, lasting solutions must be found...solutions which can withstand the onslaught of drought and other disasters.

Careful planning for long term development made at the village level can serve as a benchmark and guiding light for determining appropriate solutions. The African Development Foundation accepts the challenge given it by Congress to take the lead in the support of development activities at the grassroots level, essential in helping to accomplish this goal.

In February 1986, ADF celebrated its second birthday. In that short time, we have funded 65 projects initiated by grassroots organizations in 14 countries, which are geared to increasing self-sufficiency and improved living conditions. At this time I would like to highlight some of those projects for you.

THE NGK WATER PROJECT is located in the plains below Mt. Kenya, the second highest mountain in Africa. 1984 was a year of terrible drought throughout Kenya, and people in this area lost nearly three-fourth's of their livestock. Such conditions prompted the villages of Njcguini, Gitero and Kabati to come together as The NGK Self-Help Committee to assess their long-term water needs for both domestic and agricultural use. The nine-member committee, made up of three members elected from each village, was formed to address the problem. In cooperation with the Ministry of Water Development, the NGK Committee decided that the best and most realistic answer to their water problem would be to provide irrigation for at least one acre for each farm, and to build water-holding tanks for domestic use.

There are currently 350 farms in the three-village area, with an average of six persons per farm, or 2100 people. But this figure is expected to rise to 4601 people by the year 2006, and the present livestock figure is expected to rise from 900 to 1500 in the same period.

NGK's proposal to ADF asked for money to assist them in building a gravity distribution water system, or pipeline for irrigation, with additional water-holding tanks. After receipt of an official application, a site visit and considerable review, a process ADF implemented in less than four months, ADF awarded the grant to NGK to purchase materials for pipeline construction.

The water is now being "piped" from a rain forest on Mt. Kenya, through the central plains area, to the three villages. The total project cost is $312,000, with ADF's contribution at $240,000. All additional funds and labor are being furnished by the villagers themselves, which are two of the most impressive facets of the project. Faced with major constraints on several occasions, NGK demonstrated a capacity to meet them head-on, and developed creative ways to overcome them. For example, most village members of the project had to walk 12 miles to get to and from the worksite.

Secondly, a significant portion of the pipeline's construction required the removal of large boulders, which, under normal circumstances, could only be moved by heavy-duty equipment and explosives. As these resources were not available, NGK members used hand tools to break the boulders into sizes which could be carried by two people. The more substantial boulders were broken through the use of "thermo-shock", a method which required heating the rocks with diesel parafin and firewood, and then pouring cold water on them.

The ADF-sponsored project will assure NGK villagers a dependable supply of water for domestic and agricultural use, and it is estimated that the average, annual income of farmers could more than triple from $383 per annum to $1,186, as a result of the irrigation. A former Peace Corps Volunteer in the area has been serving as the technical advisor for the pipeline construction. A local Kenyan technician was hired as the co-manager, and after a period of management training, will take over as the permanent project manager.

The **COPCC PROJECT** is located in Bamako, the capital of Mali, a country in the Sahel region of Africa. COPCC, the acronym for the "Centre d'Orientation Professionnelle de Coupe et Couture", or the Center for Professional Training in Sewing and Design, was founded by ten women in 1972, interested in learning a profession to earn a living.

In Mali, one of the poorer nations in Africa, few children are able to attend secondary school, and as a result, there is a large and growing population of young, unemployable dropouts. The situation is even more critical for female dropout's, because women are frequently denied access to the mainstream, and married women are often chastised for their inability to contribute to the family budget.

COPCC, created to address these problems, evolved into a vocational school, open to all women regardless of age, race, religion or educational level. The number of students increased yearly to 200, but a fire in 1979 totally burned down the original facility. The present staff and students were relegated to one room. COPCC applied to ADF for funds to construct a building for 500 students, and to stock the school with equipment and supplies. The project also will expand curriculum to provide a course in functional literacy and typing for those who can read. A small shop will be on the premises to provide retailing capability.

The $14,000 ADF Grant enabled COPCC to construct a facility containing two additional classrooms and two small offices. Enrollment will be doubled from 200 to 400 students. The school, a non-profit organization, pays its staff out of tuition receipts. With the doubling of enrollment, it will be able to generate an estimated $18,500 or 7,000,000 West African Francs, which should easily cover operating costs and put COPCC on sound financial footing.

A fortunate spinoff of the ADF grant was the response of the Mali National Railroad Company, owner of the land. Impressed with COPCC's entrepreneurial initiative and the ADF grant award, the company provided COPCC with long-term rights to the property.

In the past year the Foundation has also been able to accomplish several other milestones or key activities which will better insure successful performance of the ADF-Congressional mandate:

- There has been the appointment, under ADF contract, of three Africans as Field Liaison Officers or FLO's, who are African development specialists, experienced in rural development and management. Each FLO has been assigned to one of ADF's regions, Eastern, Southern or the North Africa/Sahel. Their major function is to monitor ADF-funded projects and assist grantees in identifying potential local technical assistance resources. The FLO's began work in late 1985, and completed an intensive orientation training program at ADF headquarters in Washington. Their other responsibilities will include providing logistical support for visits of ADF's Board and Staff; and facilitating visits to ADF projects by other interested parties, for example, members of Congress and U.S. agency officials.

- We have established and partially staffed the Office of Research and Evaluation. This office will evaluate and monitor projects funded by ADF; review research proposals; perform or oversee ADF project evaluations; and, from time to time, initiate through African institutions research of specific development problems. The R&E Office will also assist grantees in conducting self-evaluations of their own development activities. I would like to mention that the new director of this office recently visited a dozen ADF projects, and has reported that, on the whole, implementation activities were proceeding in an impressive manner. People considered the projects to be their own, and took pains to demonstrate that funds were being properly spent, and that files were detailed and complete.

- Mr. Glen Fortinberry, Chairman of the Board and CEO for Ross-Roy Advertising Agency, was appointed Chairman of the ADF Advisory Council in November 1985. The Council met two times in 1985, with Council membership now standing at 28 outstanding individuals.

- Planning was initiated for the ADF Research Fellows Program, which will be operational in FY'86. The objectives of the Fellow's program are to provide an opportunity for African scholars, social scientists, and development practitioners to examine new and innovative ways of serving Africa's poor, and to disseminate research findings of micro-development approaches to appropriate U.S. and African development organizations and policy makers. One Fellow will be selected annually from each of the five African regions targeted by the ADF for a 12-month fellowship. Research findings will be prepared for publication and submitted to ADF. Fellows will be selected on or about the last day of June, 1986, to commence their research in September, 1986.

- The publication of the ADF journal, ADVANCE, (African Development Views As New Challenges Emerge), is scheduled for release in August 1986. ADVANCE will focus on African grassroots development issues as reflected through ADF-funded projects, and will also feature noteworthy achievements of other grassroots development organizations. We believe this journal will fill an important gap, since there is no similar publication with a focus specifically on African development.

A recent editorial in THE WASHINGTON POST by Donald McHenry and Lawrence Eagleburger, Co-chairmen of the Committee on African Development Strategies, stated, "...the support we give must be money directly linked to policy reforms in the recipient countries and specifically earmarked for high-priority investments that will have high rates of return. In other words, the cash we provide must be tied to programs that will raise living standards. They must be carefully planned and monitored to make certain they are used for the designated purposes and not to make rich people richer."

ADF sincerely believes that one of the most effective approaches to foreign assistance is that which is focused on and responsive to people at the grassroots level. Positive response increases incentive, and discourages people from looking for "handouts." This philosophy is shared by most donor organizations and members of Congress.

As I mentioned earlier, ADF has funded over 65 projects in 14 countries, and intends to fund projects in five more countries by the end of 1986. Total ADF program assistance stands at $4 million. In 1985, the average grant was $62,000, with only one exceeding $200,000. Our projects funded in 1984-85 ranged in dollar figures from $250,000 for the Dalakana Integrated Village Development in Mali, to the $700 Small Trader Project in Niger. The Malian project was designed to improve the standard of living in and around the village of Dalakana, by increasing agricultural production, education, health, and cooperative management. The $700 project in Niger is enabling a nomadic clan, undergoing a transition to sedentary life, to finance a small dry-goods kiosk that will service nomads, traveling through the area and eventually become a community center.

ADF continues to explore ways of meeting the urgent credit needs of small-scale businesses and agricultural enterprises. In recognition of the fact that small loans to newly emergent entrepreneurs requires intensive staff support on the ground, the Foundation has sought to identify and fund local intermediary institutions which have the capability, but lack the resources, to manage credit programs appropriate to local needs.

ADF projects in Rwanda, Lesotho, and Kenya are experiments in different loan approaches focused on working with such local intermediaries, primarily to assist small landholders to expand agricultural production by making small amounts of credit available. In addition, we are examining the possibility of providing equity capital to small scale enterprises to augment locally available credit, again utilizing indigenous intermediary institutions.

In fiscal year 1987, the Foundation will place emphasis on refining financial and administrative policies and procedures and implementing the systematic evaluation of on-going projects. Data collected through audit and monitoring evaluation activities will be analyzed and processed into policy and program briefs, and disseminated to the African and international development communities.

We believe ADF is beginning to make a difference and a contribution. The track record, thus far, speaks for itself.

Mr. **Obey**. Thank you.

ADMINISTRATIVE EXPENSES

Since the Foundation was first created, it has been criticized for managerial deficiencies, including an emphasis on hiring administrative personnel and its incurring of high overhead expenses. My understanding is that personnel compensation as a share of total obligations is 17 percent for this fiscal year. In comparison, the corresponding figure for the Inter-American Foundation is 9 percent.

I know there are differences; I know you are newer. Start-up issues and all the rest. But why are these administrative costs, which did not include travel, so high?

Mr. **Robinson**. First of all, Mr. Chairman, I am not aware of any overt public criticism of the Foundation for hiring what I consider to be a very fine and well-qualified core staff of professionals. You are well aware of the difficulties that the Foundation encountered in starting up.

I felt, once I came on board as the Acting President approximately 18 months ago, that in order for the Foundation to move ahead very quickly to begin to deal with the problems of grassroots development in Africa, we had to hire the best people we could find.

Unfortunately, I believe that the Foundation was not granted a grace period, if you will, in order to sit down and study its approach to deliver meaningful and appropriate development assistance to Africa, as was the case with the Inter-American Foundation fifteen years ago. I felt we had to hit the ground running, quickly, so I did make a conscious decision, with the Board's concurrence, to hire the best people we could find.

We also decided to implement an organizational structure designed to bring on board, in key positions, those professionals in administration and finance, in program development and project analysis, as well as in the Office of the President with respect to management and planning, the various key people we felt were necessary to organize and drive the ADF.

I think the comparison between the Inter-American Foundation and the ADF, which you have suggested, is an unfair comparison. Africa is certainly the most expensive region of the Third World to operate in, in comparison to Latin America.

Mr. **Obey**. Well, but nonetheless, there has been substantial concern expressed about the fact that you have such a high percentage of your budget going to these administrative costs.

Let me ask you this, then: So you do not believe that ADF has placed too much emphasis upon hiring administrative personnel rather than people with more hands-on experience?

Mr. **Robinson**. The vast majority of ADF personnel are in the program area, program development, analysis, foundation representatives, people who do project monitoring, et cetera.

Mr. **Obey**. Well, I'm going to need a better answer, a more specific answer. If I have to go to the floor and explain why your administrative costs are 17 percent versus the other's 9 percent, I've got to do a better job than tell the House that you think that's an unfair comparison.

Mr. ROBINSON. Well, I would be very happy to supply you with additional information that will outline this more clearly for you.

[Information to be furnished follows:]

Question for the Record Submitted by Mr. Obey

AFRICAN DEVELOPMENT FOUNDATION

Question. Why are your costs for personnel compensation 17% versus, for example, 9% for the Inter American Foundation?

Mr. ROBINSON. ADF is now in its third year of operations. Therefore, to answer this question it is useful to compare its first three years with the first three years of operation to the IAF.

	IAF (FY 1971-73)	ADF (FY 1984-86)
Grant obligations	$5,792,000	$6,897,000
Number of grants awarded	59	[1] 105
Average end of year staff level	44	21
Average annual salary (FY 86)	$38,657	$40,520

[1] Estimate.

Several things become apparent from an examination of these comparative figures. First of all, it is worth noting that the present average annual salaries of the employees of each institution differ by only 1%. Secondly, it is interesting to look at the comparative figures on staff levels and number of grants awarded. During the period in question, ADF awarded 5 grants per staff person, nearly 4 times the comparable IAF figure. At the end of FY 1973, the IAF had a staff of 52, but had funded only 59 projects. During its first three years of operation, ADF will have funded 105 projects with a staff of only 25.

ADF will have obligated its entire appropriation by the end FY 86, including the $4.5 million in no year funds that were appropriated prior to the beginning of operations in FY 84. ADF did not have a start-up appropriation comparable to IAF's ($50 million in no-year funds). Despite this, productivity has been exceedingly high and funds are being disbursed to disadvantaged Africans as quickly as appropriations become available.

The Foundation could not have accomplished these goals—funding quality projects and developing effective financial controls and requirements for the grantees in Africa—without a staff which encompassed administrative as well as program personnel. Nor could I guarantee to the Congress, as I have no hesitancy in doing now, that those projects already funded would be monitored and supported throughout the period of the grant agreements to ensure maximum impact for ADF's dollars. To do so, my staff has implemented procedures which ensure the greatest return on the dollar, balancing the cost of administering the controls with the potential losses from its mismanagement of granted funds. To date, our experience with respect to financial control of our grants has been extremely positive. Audit reports show that most of our grantees are scrupulous about accounting for every penny. For our part, we require that grantees have the necessary financial capabilities and that funds are disbursed only as needed.

Only financial and staff ceiling constraints prevent ADF from responding positively to the more than $45,000,000 in additional requests received from African private sector grassroots organizations. We believe that our experience over the first three years has been at least comparable to that of the IAF. We note, furthermore, that only after IAF's first three years was it able to reduce its proportion of administrative to program expenses, and then, only because of a sharp increase in total funding. The effect of increased appropriations on the ratio between support and program costs indicates the importance that economies of scale play in such comparisons.

We do recognize that the budget climate is different now than it was in the early 1970's, and do not expect or seek such an increase. It must also be understood, however, that operating at the current level will inevitably create the appearance of relatively high operating expenses in support of program functions.

Mr. ROBINSON. I would also like to add that we have obviously spent a great deal of time negotiating our various budgets with the

Office of Management and Budget, and they have not raised a criticism about the 17 percent overhead rate that you are citing.

Mr. Obey. They don't have to vote on it.

Mr. Robinson. That's true.

Mr. Obey. Please do, because I want a good response, or I want to be able to provide a good response.

PROJECT SIZE AND IMPACT

During last year's hearing, there was discussion of your five-year strategy, which included plans for projects in virtually all areas of Africa, and you were asked if, given the limited nature of political support for this Foundation and your small resource base, if you would not be better advised to narrow the focus of your activities to specific regions.

I think you indicated in your testimony that the average was about $62,000 or $63,000.

Mr. Robinson. An average of about $70,000 per project is what we have outlined in our five-year plan.

Mr. Obey. That's pretty small. People are going to be inclined to ask, what in the hell can you buy for an amount that's that small. What is your response to that?

Mr. Robinson. I think $70,000 can buy a heck of a lot, Mr. Chairman. In fact, there is growing concern in the Foundation that we try to fund projects that are even smaller than $70,000, because in analyzing grassroots requirements in Africa systematically we have discovered a great demand for small projects funding. We have just introduced ADF's Country Assessment Profile Process in Senegal and one other country, in an effort to identify exactly where the voids are, where the gaps are in development assistance, particularly from the standpoint of the United States Government.

If we are truly going to reach the grass roots, which is why we think the Foundation was conceived and established by Congress in the first place, then we are going to have to find mechanisms and ways to very effectively and efficiently deliver small amounts of money to the private sector in Africa. $70,000, if it is programmed appropriately at the village level, whether we're talking about irrigation systems or village level food production or a small-scale private enterprise type project, $70,000 can have a tremendous impact in a village or in a rural setting.

In the aggregate, over a period of time, say five to ten years, especially if we begin to move toward what I would call the clustering of projects in countries and in regions where we can achieve a measure of visibility and progressive development projects, I believe subsequent evaluations and assessments will indicate the Foundation is having some positive impact. But I would add that indications are the Foundation is having some impact at the village level even at this early stage.

LEVERAGING COMPLEMENTARY AID

Mr. Obey. So how much leveraging have you been able to do with your money, with your projects? Have you been able to manage to leverage grants from other funding sources or other organizations?

Mr. **Robinson**. We have in a few cases been able to do this. There is a project in Rwanda we funded with a local credit union. The credit union, IWACU, once it identifies local cooperative projects, that warrant loans, provided through its matching project partner, Banque Populaire, it provides a portion of the required funds plus technical assistance; Banque Populaire contributes at the rate of three times IWACU's contribution.

Therefore, we have been able to leverage, in Rwanda, local cooperatives involved in brick manufacturing, in boat building, in agriculture, et cetera.

There are other projects in Togo and Kenya, in which we have been able to leverage our resources overall. But we are just beginning to move in this direction and do not have a large number of examples of projects where we have been able to leverage at this time.

EVALUATION

Mr. **Obey**. You mention, in your prepared testimony, that you will be instituting a system for evaluating your projects in '87. Any way of measuring the early impact of the assistance that you are providing now or is it too early?

Mr. **Robinson**. We hired our Director of Research and Evaluation in November of '85, Dr. Gerald Cashion. In January and February of this year, he assessed a random sampling—about a dozen projects in four countries. These are projects we funded in FY '84 and the first half of FY '85. I am very pleased to announce to you that the results of that evaluation indicate we did make some good decisions early on in the pressurized days of the Foundation, back in 1984.

Our projects have been implemented very efficiently. The grantees, the recipients of the funds—be they organizations or individuals—are managing ADS funds very carefully. They are keeping very accurate records of finances. The objectives, as outlined in the grant agreements, are being followed almost to the letter. In some cases, project activities have been finished and completed way ahead of schedule.

Thus, the preliminary indication is that we are doing some things the right way.

PROGRAM FOCUS

Mr. **Obey**. You know I want you to succeed, but I must say I have some concern about the broadness of your focus. What I would hate to see happen is to see you spread so thinly and have impact in so many places at once, that you are not going to be in a position to clearly demonstrate that you have a significant impact that indicates the effort is worth the candle.

So I guess I just will ask you one more time, you do not think that you are trying to do so much, in so many places at once, that you are not going to wind up with any significantly measurable impact anywhere?

Mr. **Robinson**. Well, I think that we share your concern, Congressman, but I think that operating in 14 out of 51 countries in Africa is not more than the Foundation can adequately handle at this point in time. There is no question that the Foundation is undermanned in terms of the number of personnel we have and all the various functions that the agency must undertake.

But we are very cognizant of the necessity for tight management, tight control. We have a series of quarterly progress and fiscal reports that we use as one method of monitoring what we are doing. Our Foundation representatives are constantly on planes, in the air, on the ground in Africa monitoring projects.

We are beginning to receive audit reports from African audit firms which are proving to be tremendous educational and training inputs for local organizations. We have just hired three field liaison officers, one for east Africa, one for southern Africa and one for the Sahel. These are African professionals in development who are on the ground and they are augmenting our ability and capacity to monitor projects.

So we do not feel that we have taken on more than we can adequately manage.

The pressure on the Foundation from the Africans themselves is also a factor which could if we were not on top of the situation drive us in the direction of perhaps expanding too rapidly. We have been in 14 countries from the beginning of the Foundation's start-up activities in Africa. In FY '87 we hope to increase the number of countries by one or two, at the most. We are beginning to systematically look in depth at what each country has to offer before we make the decision to move in.

There is a very high level of consciousness in the Foundation and among board members as to how much we can do and how much we can do well.

We are also very concerned about being able to replicate projects that are on going, that show good signs of success and impact, to other areas. And as I indicated a few minutes ago, by clustering our projects within regions, within countries, we do believe that some discernable impact can be measured fairly early on.

Mr. **Obey**. Mr. Mrazek, any questions?

Mr. **Mrazek**. Not at this time, Mr. Chairman.

Mr. **Obey**. All right. Thank you very much for your time.

Mr. **Robinson**. Thank you.

Questions for the Record Submitted by Mr. William H. Gray III

1. **Question**. Not very long ago, vast expenses of the African continent were seriously threatened by drought and famine. However, combined efforts of donor and recipient nations, plus the coming of rains in many countries have begun to break to devastating hold of these twin crises.

As you mentioned in your testimony, there are many crucial challenges to be met—reforestation, the upgrading of farming mechnisms, community training, and nutritional programs, to name but a few.

Focusing on those countries in which the ADF now has, or plans to implement programs, kindly provide greater detail on the types of specific development activities you anticipate being stressed by the peoples of the regions you serve, and the extent to which ADF is, and is not, equipped to participate in meeting these challenges.

Mr. **Robinsion**. Based on the types of requests for assistance we have received over the past year, and from the observation on my staff who visit Africa frequently, I anticipate that we will continue to see an interest expressed in the following types of development activities: small-scale food production, water resource management, vocational training, and credit for both small-scale enterprise and agricultural development. Since ADF's Board of Directors has made a conscious decision to focus on self-sustaining, income generating activities, and to communicate this focus to our African constituency, requests for assistance in the areas of education and health have been steadily decreasing though we are aware that a demand for these types of programs exists.

Expanding on the broad categories of projects which we do fund, small-scale food production projects span the gamut from rice and palm oil to vegetable production. A majority of these projects include requests for agricultural technology to improve output and expand the area which can be put under cultivation when farmers move beyond the hoe. The technology requested has ranged from oxen to plows, and in one case, a solar powered fence to keep wild game out of the fields. We have also been asked to provide assistance for small animal husbandry projects such as rabbits, chickens and pigs. Finally, we have responded to requests from cooperatives of fishermen for improved equipment and fish preservation facilities. Almost invariably, food production projects focus on two objectives: increasing the nutritional intake of the participants and their families, and income generation.

As you might expect, water resource management is a priority in the Sahel. However, surprisingly, we have many such requests from areas in West Africa which do not experience the severe drought conditions of the Sahelian countries, but wish to grow food year round, free of the cycles imposed by annual rainy seasons. Projects of this type include well digging schemes, irrigation, and occasionally, a request for funding for a low-head hydro project. Again, these requests are motivated by a desire for better nutrition and the need to generate some cash income.

The high degree of unemployment in the urban and some rural areas, as well as the desire to provide productive work for the disabled, has resulted in a significant interest in vocational training projects. In this category, ADF has funded, among others, projects involving weaving, cloth dying, sewing schools, brickmaking projets, handicraft cooperatives, and the construction of scotch carts (oxen-drawn vehicles common to Southern Africa). We have also funded several projects designed to foster agricultural education. In each case where the Foundation has supported a vocational project, we have endeavored to concentrate funding on those activities of the requesting organization which would allow the project to become self-sustaining following the termination of the ADF grant.

Requests for credit from the fourth area of development needs to which we respond. Credit is a critical element in small enterprise and small scale agricultrual projects. Since these projects will, in our opinion, provide the backbone for African grassroots development, it is in this area that we have felt the greatest urgency to respond, particularly in view of the absence of other credit resources serving the African poor. The Foundation has identified a series of intermediary institutions to manage credit resources on the ground, and to provide the managerial and technical assistance to borrowers which is required to make small loan programs work. In one instance, we have even been able to leverage our funds by combining resources with a local credit union, which has agreed to lend $100 against every $40 made available by the Foundation to guarantee loans to small entrepreneurs.

In all of these program areas, the Foundation has been able to utilize the funds provided by Congress to attain the maximum impact achievable at a local level because we are responding to project requests emanating from the recipients themselves to carry out projects which they design and implement. The self-help rhetoric of the professional development specialist does not begin to describe the reality of what can be accomplished by a resource starved African village or development organization when they have access to materiel assistance to do what they *know* must be done to solve their own economic and social problems.

2. **Question.** I was pleased to learn of ADF's appointment of African development specialists who are experienced in rural development and management, as Field Liaison Officers (FLO's).

If our country's many years in the development arena has taught us only one thing, that could well be that there is much to be gained by encouraging and ensuring meaningful indigenous involvement in the development projects for which we provide funding.

I would be interested to learn more about the selection criteria applied by ADF in selecting these individuals, the curriculum and duration of the FLO training program in Washington, and the functional relationship between the FLOs and headquarters.

Mr. **Robinson.** As you have inferred, the FLOs occupy a critical position in ADF's project management structure, performing the crucial role of liaison between the African community or organization funded and the Foundation. Thus, high standards were established for their selection. These were: (a) a commitment to grassroots development, as evidenced by their educational and employment backgrounds and references; (b) the ability to relate effectively to people at the village level, local and U.S. Government officials, and members of our own staff; (c) familiarity with the languages and cultures of the region, as well as English; and (d) the ability and maturity to work independent of day to day supervision.

The Foundation conducted an intensive nine-day orientation for the FLOs at its Washington headquarters. A curriculum was developed to give them an overview of Foundation operations, familiarity with ADF procedures for project approval and grant management, a thorough understanding of ADF's philosophy and Five Year Plan, and, most importantly, an understanding of their primary duties of project analysis and monitoring.

As can be inferred from their title, the FLOs are to function as the intermediary between the grantees and the Foundation. They do not supervise the implementation of projects, but rather monitor their progress. In that role, they will supply the Foundation with necessary information about project status, and orient grantees regarding the Foundation's reporting and fiscal requirements, auditing and evaluation, and logistical issues such as procurement.

The FLOs are hired under contracts which specify the duties to be performed. As contractors, they function independently in the field while receiving general direction from their project managers, the Foundation Representative for their respective regions. The responsible Representatives have developed travel and work plans designed to control costs and to maximize the use of the FLSs' time. Each month the FLO is expected to submit progress reports which are measured against these plans. In that way, the FLOs' performance can be evaluated over time and any deficiencies, in performance or the plan, can be corrected before they adversely effect the grantees. On a more human level, as the FLOs are expected to function as ADF representatives in Africa, we have made every effort to treat them as part of the ADF team. The Washington orientation helped to achieve that goal.

3. *Question.* Your testimony mentions the establishment of the Office of Research and Evaluation. Again, I note and support the emphasis on indigenous involvement when on Page 7, you mention ADF's plans to "initiate, through African institutions, research on specific development problems."

You have now funded 65 projects in some 14 countries. Could you pinpoint for us some of the African institutions you anticipate participating in future research projects, and the types of projects for which you consider their expertise to be particularly well-suited.

Mr. ROBINSON. By law, ADF is directed to support "development research by Africans and the transfer of development resources, expertise, and knowledge within Africa."

ADF had defined its policy of support for research on this basis, limiting the scope of ADF's support to inquiries focused on grassroots development problems. The priority is on research which can help solve or minimize specific economic and social development problems of people who normally have no access to development assistance from foreign donors.

The Foundation will support applied or adaptive research that: may identify practical approaches to getting development aid directly to people; aims at practical results which can be implemented by local community organizations, government, or donor agencies; can test or demonstrate ways to more effectively involve grassroots groups as partners in the development process; offers the potential for effecting change in government and donor policy to get more development aid to the grassroots level;

The Foundation plans to offer three types of assistance to African institutions, development professionals, scholars, and students:

(a) Institutional support grants to help organizations which study problems within the ADF Congressional mandate. These grants will be designed to revitalize existing organizations rather than create new ones.

They could go to such entities as, to name but a few, the Institute for Development Studies of the University of Nairobi, the Sudanese Graduate Foresters Association, the Agricultural Society of Sierra Leone, the Ghana Association of Science Teachers, or the Senegalese Association of Agricultural Engineers. They could also be directed to grassroots organizations which seek to research a promising process or technology that seems particularly relevant to development in Africa.

Such organizations are familiar with local development problems, aware of the cultural and ecological aspects which affect local development, and often lack only the financial means to conduct research. They are particularly able to test appropriate technology, conduct grassroots socioeconomic surveys, or try organizational processes ill-suited to application or testing by foreign donors or experts.

(b) Individual or small team research grants. This support is aimed at the development professional, the social scientist, the teacher, the student who has an idea he or she would like to pursue. Grant amounts will be small, generally limited to a 12-month time period, with a focus on a specific development problem of local concern. The research must be conducted locally.

(c) Foundation Fellowships. These are offered to senior scholars, development practitioners or professionals to finance research during a period of up to one year. Research topics will be highly specific and anticipate results which will influence government or donor development policies.

The Foundation will help disseminate useful results to grassroots organizations, government and private sector development assistance policymakers—African, American, and other—through its journal, ADVANCE; occasional monographs and anthologies of articles.

4. QUESTION. ADF's decision to publish it own grassroots development journal beginning in August 1986 is an important step in your making the transition from being an organization to an institution.

Kindly tell us something about the marketing plans for this publication—Are you relying on subscriptions only, subscriptions plus bookstores, some combination, other? I would like to learn a bit more about your strategy for building ADVANCE's initial base of interest and support.

Also, there are significant administrative, marketing, financial and other implications based on whether ADVANCE will be a monthly, quarterly, semiannual, or annual publication. How often will ADVANCE be published, and what was the underlying rationale for this decision?

Mr. ROBINSON: In order to market ADVANCE, ADF has compiled and refined an extensive mailing list, of persons, grassroots groups, development organizations, academic institutions and others in the United States, Africa and elsewhere, whose ideas and activities have an impact on the development field. The use of the list to distribute BEYOND RELIEF, the ADF newsletter, created and awareness among these groups of ADF's philosphy and the types of projects it funds. 3000 copies of ADVANCE will be distributed to these institutions at no cost, which will ensure its availability to those groups who may have the most immediate need for its contents, but not the means to purchase it.

If, as was the case with the newsletter, this mailing generates a demand for additional copies of ADVANCE, we will do a second printing. Since the subject matter in some respects will be unique, and the journal will be distributed without charge, we expect that demand for it will be high without the need for an aggressive marketing strategy which, in any event, would be well beyond our limited means.

Initially, ADVANCE will be published annualy. Funding and personnel constraints dictated this decision.

5. QUESTION. As a Member of Congress, I often receive urgent pleas from small African entrepreneurs and farmers, for whom the difference between total business collapse and a chance for economic survival hinges on as little as $300. For this reason, I strongly support ADF's commitment to explore ways of meeting urgent credit needs of small-scale businesses and agricultural enterprises. This, if well managed, and if it contains the required checks and balances, could represent one of the most important components of your overall effort.

Kindly expand upon the different loan approaches being tested in your Rwanda, Lesotho, and Kenya programs, and the relative rates of success achieved thus far. Also, a status report on ADF's explorations regarding the possibility of providing equity capital to small scale enterprises would be appreciated.

Mr. ROBINSON. I will summarize the approaches in the three countries mentioned in your question as follows:

Rwanda—Several requests were received by ADF from agricultural cooperatives with previous business histories which were unable to obtain financing to expand their activities. ADF identified an indigenous non-governmental organization, IWACU, which provides management assistance to emerging small enterprises, and a local credit union which had the expertise to manage loans, but which was unable to sustain the risk of lending to emerging small enterprises. ADF negotiated a tripartite arrangement with these two entities under which ADF provided a grant of $233,000 to IWACU, $200,000 of which would serve as a partial guarantee for loans by the credit union, and $33,000 to support assistance to the borrowers in managing the business and technical aspects of their production. The credit uinon, inturn, agreed to make $300,000 in small loans available to cooperative borrowers which qualified as viable enterprises. The loans will be repiad into a revolving loan fund which will make credit available over a 5 year period to other cooperatives in Rwanda. Since September, 1985, when the grant agreement was signed, four cooperatives have qualified for loans and a total of $277,548 has been made available for expanded agricultural production.

Lesotho—ADF has funded two revolving loan funds to village cooperatives to enable their members to receive small loans to capitalize poultry production projects. It is too early to measure the impact of these programs. However, need for the credit has clearly been established as the two cooperatives have distributed approximately $19,000 in loans to 80 small borrowers, averaging $238 each; and the egg business in this part of Lesotho is thriving. The overwhelming majority of the recipients of loans in this project have been women.

Kenya—A number of credit projects have been funded in Kenya utilizing intermediary institutions. Partners for Productivity/Kenya (PFP/K) has established a $80,000 revolving loan fund under an ADF grant. PFP/K trains groups of women at the village level in credit management, and then loans them funds as a group at a commercial rate of interest which the group then on-lends to its members at an interest rate fixed by the group as a whole. Funds are used for local small enterprises and agricultural production. The repayment rate on the loans made to date is almost 100%. Funds repaid to PFP/K will be used to capitalize other loan funds for groups which it trains.

Under a $111,245 grant from ADF, 91 farmers near Nakuru have been provided with bookeeping, extension and credit services in a combined package from a local organization called Farming Systems Kenya. Credit in this case is in the form of in-kind seeds for beans and maize, as well as pregnant heifers. Again, significantly, loans have been repaid in almost every case.

ADF has provided a grant to the Kenya Womens Finance Trust which has enabled the organization to establish a branch of their indigenous small-scale credit institution in Nakuru. The branch has already provided 267 rural women with business management training and loaned a total of $5000 for micro-enterprises started by women.

Finally, as part of a large honey production grant, ADF has funded a revolving fund managed by the Kenya Bee Association to provide loans to local honey production cooperatives to permit the cooperatives to buy honey from their members. Previously, businessmen with substantial cash resources were able to by-pass the cooperatives, buying directly from the members. Not only did this situation weaken the cooperatives as organizations, but it resulted in the producers receiving lower prices for their honey, a disincentive to production. As a result of the ADF grant, the cooperatives can now buy the honey and deliver it to the local cooperative-managed factory for refinement and them marketing, maximizing the benefits to the members, and strengthening the cooperatives as self-help institutions.

ADF is currently investigating alternative methods for channeling credit to small and micro enterpreneurs, including the development of an equity capital program. In the course of these investigations, we have consulted development financing organizations, small credit institutions, cooperatives, and development and commercial banks. We have also closely examined proposals from financing organizations and indigenous private voluntary organizations seeking to establish capital investment funds.

ADF hopes to pursue a shared equity proposal which would permit the funding of small enterprises which are eligible for commercial loans, but do not have equity capital requirements imposed by the local financial institution. The program would be administered through an intermediary institution. The grantees would ideally be private voluntary organizations with proven ability to provide management assistance to entrepreneurs and a need for income to make them self-sustaining, or the desire to manage capital investments on a revolving basis.

At present, the Foundation is examining the proper vehicle for such a program. There exists the possibility of requesting the business department of a university to administer a pilot program, in much the same manner as the evolution of the Gramen Bank of India. However, more research is necessary before this program can be implemented.

WEDNESDAY, APRIL 9, 1986.

OVERSEAS PRIVATE INVESTMENT CORPORATION

WITNESSES

CRAIG A. NALEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
ROBERT DRAGGON, VICE PRESIDENT, FINANCE OPERATIONS
ROBERT SHANKS, GENERAL COUNSEL

Mr. OBEY. Next we will hear from Mr. Craig A. Nalen, President and Chief Executive Officer of the Overseas Private Investment Corporation.

Mr. NALEN. Mr. Chairman, thank you.

Mr. OBEY. OPIC commitments are controlled through limitations on direct loans and guaranteed loans by the Committee—or set by the Committee. These limitations are not scored as budget authority which explains why OPIC has so seldom testified before us. But we thought it would be appropriate to hear from you this year, Mr. Nalen.

Why do you not introduce whoever else you have with you and proceed?

Mr. NALEN. Thank you, Mr. Chairman.

To my immediate right is the Vice President in charge of our finance operations, Bob Draggon. To my left is our General Counsel, Bob Shanks.

We appreciate being given this opportunity to appear in front of your Committee and I promise to keep it short. I will not rehash the written testimony, which has been submitted.

I would like to, with your permission, just spend a few minutes covering three principal areas. Just one, very briefly, a quick overview on what OPIC is. Second, why OPIC is different. And finally, who benefits from OPIC's programs.

I think you and the Committee know that OPIC was launched some 15 years ago, essentially through the tireless efforts of Senator Javits. Its mandate then, as it is now, is to encourage investment of private U.S. capital in friendly third-world countries.

To be precise, I believe that the original wording was to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed, friendly countries and areas.

Well, the idea, of course, was founded on the principle that the creation of vital business enterprises in these emerging countries was a far better alternative than to force them to seek additional loans through borrowing and thereby add to their already overloaded debt burden. And it certainly was a better alternative than to send over more concessional foreign aid.

Increasingly, we are seeing over and over again that substantial benefits accrue when new investment is infused into these struggling economies and what happens when the forces of the free enterprise system are unleashed.

Just to clear up any confusion that might exist about what happens to the U.S. economy while we are providing these benefits to the emerging countries, I might add that OPIC's charter is very explicit about U.S. effects. That is, OPIC is prohibited from assisting any project that has any sort of a detrimental impact on our own economy.

We carry out this mission through two principal programs, our political risk insurance program and our finance program. The political risk insurance, I'm sure you know, is insurance against certain deterrents that would bother a businessman investing overseas: war, rebellion, insurrection, expropriation, business interruption and in some cases inconvertibility of currency. We provide that sort of insurance.

Our finance program, which perhaps is less well known, consists of three principal parts, our direct investment fund, our loan guaranty program, and local currency loans.

It is the direct investment fund and the investment guaranty authority that are the subjects of the appropriation legislation that is before you today. Our direct investment fund is exclusively for small business. We used to have a limit of $10 million. That was increased to $15 million a couple of years ago.

I should emphasize that there is a strong demand for this program. We always lend right up to the limit and have done so every year that we have been in business.

The program is particularly effective in encouraging small businesses which cannot raise capital through traditional sources to launch vital new enterprises throughout the developing world. And in response to Congressional concern, I might add that the Caribbean area has been a special beneficiary of the direct loan program. As you know, we get a lot of encouragement and more than encouragement—direction—to pay particular attention to the Caribbean.

I would like to point out that in the last five years, in the direct investment fund, over 70 percent of all projects that OPIC has been involved with have been—excuse me, over half, have been in the Caribbean, helping to establish projects that range from integrated poultry operations and winter vegetables in Jamaica to a fish processing operation in Costa Rica, a corrugated box production facility in Haiti and so forth.

The loan guaranty program provides U.S. financial institutions with guaranties for loans to be made to eligible U.S. investors for projects in developing countries. An OPIC-guaranteed loan can provide investors with a significant portion of medium to long-term borrowing for ventures in countries where conventional financial institutions are often reluctant to make such commitments.

Examples of such loan guarantees range from a trucking operation and a pipeline in the Sudan to a fertilizer plant just recently undertaken in Tanzania; two rubber plantations in Liberia; hotels in Jamaica and a tuna fishing operation in Indonesia. These are just a few examples.

Finally, there are our local currency loans. This is a very small part of OPIC's program, but I mention it because it does illustrate a certain capability we have there. On behalf of the Agency for International Development, OPIC administers the so-called Cooley loan program, which lends excess local currency obtained by our government through sales of agricultural commodities through Public Law 480.

All of these local currency loans, to date, have been in Pakistan and the majority of those that we have done since 1981 have been with U.S. pharmaceutical projects.

Incidentally, these local currency funds in Pakistan have just about dried up so that program is more or less coming to a halt, although we do have the capability to administer it.

Let me now shift very briefly and point out why OPIC is different. I am sure everybody who sits in this chair in front of you tries to convince you that their case is different from others. I think you might be interested in a few of these facts.

OPIC is not appearing before this Committee to request any appropriations. We are not seeking any new authority. As you know, OPIC is operated as a business by professional staff people. Most of them have come to OPIC from the private sector.

And since we are run like a business, OPIC is used to charging for its services. We charge premiums for our insurance, interest for our loans, fees for our loan guaranties. OPIC, then, makes money. OPIC is self-sufficient. OPIC actually returns money to the taxpayer. You may be aware that two years ago we returned $106 million, which represented our original appropriation, back in 1971. So we more or less have burned the mortgage. Each year OPIC earns money. Last year OPIC earned over $100 million.

Those are some of the ways that OPIC is different.

We are simply coming before this Committee to respectfully recommend that it allow us to use these earnings, that we have generated internally, to fund our finance programs at the same levels as were established and authorized by this Committee two years ago. That is, $15 million for the direct loan program and $150 million for the loan guaranty program.

And finally, let me touch on this subject. Who really benefits from OPIC's programs?

Much has been written about and talked about OPIC, that when you talk about OPIC everybody comes out a winner. Well, I am not sure about that, but I can tell you with a lot of conviction, there are certainly two prime beneficiaries.

The first beneficiary is clearly the host country itself. I have visited probably more than 45 emerging third-world countries and I have seen first-hand when foreign capital is infused in those struggling economies. I have seen new products that are created, new services that are created, technology transfer, the creation of new jobs, exports, and a better balance of trade. And perhaps most important for these struggling countries, the hope for a better quality of life.

Statistics confirm that OPIC projects have generated more than $2 billion in exports for the third-world countries over the past five years and have created more than 22,000 jobs with the projects that we have been associated with.

You might be interested, in the geographic distribution of where OPIC has been doing its business. As you are aware, we get a lot of encouragement to pay special attention to Latin American and Caribbean countries, as well as Africa. If you will just forget about the confusing titles of this chart and stay with the pie charts themselves, this represents the number of projects we have done.

In terms of that, over 75 percent of our projects have been involved with Africa, Latin America and the Caribbean. When you take a look at the pie chart, in terms of dollars involved in these projects, again, it is a little over 70 percent for those two key areas. But here Africa benefits more, where 41 percent of total funds involved in these projects have gone into Africa.

There is to another area that Congress has always been extremely concerned about, and that is are we really focusing our attention on the poorest of the poor, instead of the wealthiest of the developing countries? Here, this pie chart—again, forgetting the titles—deals with the percentages of projects in low income, medium and high income. And this is the dollar volume.

Here you will see that less than three percent goes into the higher income countries. Congressman Bonker has suggested that we try to do at least half of our business in the low income countries—which are $896 per capita income or less. And you can see we are just nine-tenths of a percentage short of that.

And here, in terms of dollar volume, we exceed that by approaching 60 percent of our projects in the lowest income countries.

So much for the host countries. What about our own country? Here again, it becomes clear that the U.S. economy is a major beneficiary of OPIC's programs. First, OPIC's programs enable U.S. companies to compete on a little more even playing field than before.

As you know, our competitors in the industrial world, the Japans, Germanys, Frances, Canadas of this world, are probably light years ahead of us in terms of establishing beachheads in the world's fastest growing markets, which do occur in the third-world. The United States has been slow in going over and participating in these markets.

With OPIC's programs, however, we believe that the U.S. businessman is becoming more effective and perhaps we are seeing a reawakening of the old Yankee trader spirit. If our own results are any indication, where OPIC's insurance programs have quintupled over the last four years, we are seeing more participation in these markets.

So OPIC does play a key role in helping the United States get its fair share of these markets.

Second, all statistics clearly point to the fact that almost all overseas investments have a direct and positive impact, in terms of creating new exports and new jobs back here in the United States. In fact, the record clearly shows that over the past five years OPIC-supported projects will generate $1.9 billion in new exports of U.S. goods and will create over 18,000 man-years of employment in this country.

Let me also add that multinationals are not the only ones helped by OPIC. Again, you are aware of Congress' concern over small business involvement, where we have very clear marching orders in terms of paying special attention to small businesses. It is a fact that since 1981, of all OPIC-financed projects over 70 percent were involved in small businesses.

In conclusion, we think the record speaks for itself. OPIC's programs have been remarkably successful in achieving the three principal goals set by Congress. First, the goal aimed at having a positive impact in the developing countries. Secondly, that OPIC's programs have a positive impact on our own economy back here in the United States, and the third goal, to carry out these programs on a self sustaining basis without the need to request appropriation of new funds.

We, therefore, respectfully recommend that this Committee approve again the statutory limits of $150 million for our loan guaranty program and $15 million for our direct loan fund, both of which were previously established two years ago. The finance program along with our insurance program can continue to operate with maximum effectiveness and we can continue to meet the ever increasing demand for our services.

I am almost embarrassed to be taking your time today talking about such small numbers.

[The prepared statement of Mr. Nalen follows:]

STATEMENT OF

CRAIG A. NALEN

PRESIDENT & CHIEF EXECUTIVE OFFICER

OVERSEAS PRIVATE INVESTMENT CORPORATION

BEFORE THE

SUBCOMMITTEE ON FOREIGN OPERATIONS

COMMITTEE ON APPROPRIATIONS

U.S. HOUSE OF REPRESENTATIVES

APRIL 9, 1986

Mr. Chairman and Members of the Subcommittee

We welcome this opportunity to review the finance programs of the Overseas Private Investment Corporation and their role in implementing the agency's Congressional mandate to "mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States."

To stimulate investment flows to these less developed countries, OPIC offers two major incentive programs designed to reduce the unusual risks involved in doing business abroad. First, we write political risk insurance to cover three contingencies -- currency inconvertibility, expropriation or takeover, and physical damage resulting from war, revolution, insurrection or politically inspired civil strife. Second, we offer finance services in the form of direct loans of up to $4 million per project and loan guaranties of up to $50 million. In fiscal 1985 we were authorized to issue up to $15 million in direct loans and $150 million in guaranties; both programs were fully utilized. OPIC's direct loans are specifically earmarked for "small businesses", and the guaranties are available to companies of any size.

You may recall that Congress directed OPIC's management "to conduct financing, insurance and reinsurance operations on a self-sustaining basis" - - in other words, to operate its investment incentive programs at no cost to the U.S. taxpayer. I am pleased to report that during its fifteen-year history, OPIC has met its major objectives successfully, and that in doing so, has broadened the base of U.S. private investment in the Third World by supporting the entry of more small and medium-sized companies into the international marketplace. As you know, OPIC does not receive any appropriations, and two years ago returned to the U.S. Treasury $106 million provided by Congress for start-up of operations in the early 1970's.

Let me state at the outset that private sector investment has become an increasingly important factor in the development plans of Third World countries, many of which have reversed their attitudes toward foreign investment, and have moved toward a free enterprise approach. Recent years have seen a steady growth in competition for all available investment dollars as a means of creating jobs, generating capital and introducing new techniques and skills that will enable more people in developing countries to improve the quality of their lives.

Obviously, with needs as pressing as those of the developing world, come challenge and opportunity for the United States as well, because investment is a two-way street. There was a time -- and not too long ago -- when the U.S. business community, (except for the large multinational corporations), paid little or no attention to overseas markets. The reason was obvious -- the U.S. market offered excellent opportunities for growth, so investing at home made more sense than venturing into the unknown where different cultures, language barriers and unpredictable political situations made investment a risky business.

But things have changed, and we can no longer ignore the changing economic facts. The developing nations constitute the world's fastest growing markets, and for the most part, they are only in the earliest stages of growth. They contain more than two-thirds of the world's population and much of its natural wealth. In 1969, less than twenty years ago, they accounted for about twelve billion dollars in U.S. exports.

Today, they consume nearly $100 billion. And since overseas affiliates and subsidiaries of U.S. companies account for about 40 percent of our total exports, U.S. investment in the Third World obviously will be a critical factor in our own future growth.

Given these facts, it is alarming to note that while in absolute terms U.S. investment in developing countries has increased significantly, in relative terms the U.S. share of those markets has declined steadily. Unless our business community learns to compete more effectively against other OECD countries, we will not generate needed new job opportunities for future generations.

Thus, OPIC's role in reducing the risks involved in overseas operations has become an increasingly critical factor both in the implementation of development strategies of U.S. foreign economic policy and by providing impetus to the business community's competitive efforts in the international marketplace. But there is much to be done by way of educating more smaller and middle-sized companies about the opportunities for joint ventures in the Third World, and about the incentive programs available through the federal government. For example, OPIC is sometimes called "Washington's Best Kept Secret", a title we would gladly confer on someone else.

In many cases, those who have heard about OPIC know about its political risk insurance programs. Its finance programs, while not so well known, also fill an important need in the investment area. OPIC has made a very substantial effort over the past five years to increase the awareness of smaller U.S. businesses of the services it can provide. As a result, the demand for OPIC financial services has grown and OPIC has been able to fully utilize its authority in recent years. Within our greatly limited outreach resources, we plan to continue educating American businesses about the availability of our finance program.

PROGRAM OVERVIEW

OPIC's Finance Program has become an increasingly important instrument in the Corporation's efforts to mobilize and facilitate U.S. private investment in the developing world. OPIC financing is particularly important for U.S. small business, which is often unable to obtain long-term funding for overseas projects on reasonable terms from private U.S. sources or developing country sources, particularly in the poorer nations where foreign exchange is difficult to obtain. In this connection, it is worth noting that more than 70 percent of OPIC's annual project finance commitments since 1981 have been sponsored by, or have involved, significant participation by U.S. small business and that the majority of OPIC's finance projects committed during this period are located in the least developed countries -- those with per capita incomes of $896 or less in 1983 U.S. dollars. Many of these projects are located in the Caribbean Basin and sub-Saharan Africa.

OPIC's finance program provides medium to long-term financing for new business ventures and expansions of existing facilities involving eligible U.S. businesses. It provides direct dollar loans, local currency loans and loan guaranties. In all cases, OPIC's participation normally takes the form of "project financing" based on the economic, technical, marketing and financial soundness of the project itself. Each project must be within the demonstrated competence of the proposed management, which must have a proven "track record" in an identical or similar line of business, as well as a continuing financial stake in the enterprise.

In providing project financing, OPIC makes every effort not to compete with commercial banks and other financial institutions, but seeks instead to complement private lending facilities. In addition, commercial banks frequently seek OPIC participation on project financing because they recognize that the presence of OPIC, as a U.S. Government corporation, can strengthen the prospects of project success.

Historical Performance

Since commencing operation as an independent U.S. Government agency in January 1971, OPIC has made commitments for direct loans, investment loan guaranties and local currency loans in excess of $975 million to finance U.S.-sponsored projects in the developing world. Over half of these commitments were made during the last five years. During the FY 1981-85 period, OPIC made direct loans, loan guaranties and local currency loans of over $600 million in support of 106 projects in more than 30 countries. Approximately 70% of OPIC's finance commitments during this period have involved investments by small businesses. This is in excess of the 30% statutory guidelines. In addition, approximately 50% of all projects committed during the past five years have been in low-income countries.

In spite of program ceilings that, from FY 1981 to FY 1984, limited direct lending to $10 million per year and loan guaranties to $100 million per year and in FY 1985 to $15 million for direct loans and $150 million for loan guaranties, the number of projects financed from FY 1981 through FY 1985 averaged 21 per year. By comparison, an average of nine projects were financed annually during OPIC's first decade.

During the past five years, projects were added to OPIC's finance portfolio for the first time in thirteen countries, such as China, Uruguay, Tanzania, among others. In addition, OPIC added a new instrument to its finance program, in the form of a small contractors' guaranty, which is designed to enhance the ability of small U.S. contractors and high technology companies to bid competitively for construction and turnkey contracts in developing countries. OPIC has also developed a leasing program which can provide financing to both foreign leasing companies with U.S. partners and to cross-border lease transactions. This program is designed to encourage U.S. exports of productive equipment for projects which contribute to host country development.

During Fiscal Year 1985, the Finance Department fully utilized its financing authority of $15 million for direct loans and $150 million for loan guaranties. In addition, funding was committed for a $1 million local currency loan. Of the 24 projects supported during fiscal 1985, 16 are located in Latin America and the Caribbean, three are located in the Near East, two in East Asia, and one each in South Asia, Africa and Europe.

As of September 30, 1985, the Finance Department portfolio, including authorized commitments not yet disbursed, amounted to $589.3 million. OPIC's Direct Investment Fund contributed $54.9 million to this total. In dollar terms, the total finance portfolio is distributed 41 percent in Africa, 29 percent in Latin America and the Caribbean, 29 percent in the Middle East, Asia and Europe.

Direct Investment Fund (DIF) Program: Financing Small Business Investments

Since 1978, when OPIC's direct loan authority was reserved exclusively for small business, the demand for and utilization of this program has expanded steadily, up to the limits of OPIC's authority. From FY 1981 through FY 1985, OPIC committed direct loans to 68 projects in 50 countries. For fiscal 1986, the direct loan program authority ceiling has been reduced to $13.6 million by the Gramm-Rudman-Hollings Act, but the 1987 budget returns the amount authorized to the FY 1985 $15 million level. We are hopeful that the figure will remain unchanged.

OPIC's direct loan program has been particularly effective in facilitating the participation of U.S. small business in the development of the Caribbean region and in support of the United States' Caribbean Basin Initiative. Since 1981, more than half of all OPIC direct loans have been made to projects in the Caribbean Basin. An example of this type of project is the $1.4 million direct loan provided to Trelawny Vegetables Limited to establish a 760-acre vegetable farm in Jamaica. The project's exports of fresh vegetables will provide $2.2 million annually in foreign exchange earnings. At full capacity, the project will employ directly and indirectly a total of 870 farmers, who will be trained in small-scale technology and the commercial aspects of vegetable production. The project also supports the Jamaican Government's emphasis on agricultural production as part of a fundamental shift in policy toward export-oriented economic growth.

In the Eastern Caribbean, Roydan Ltd. received a direct loan of $700,000 to establish a 200-acre vegetable farm in Antigua. The project will feature a drip irrigation system that is 50 percent more efficient than conventional systems. Transfer of technology and the introduction of new products for export to Europe and other Caribbean countries will also result from the project.

Local Currency Loans

On behalf of the Agency for International Development, OPIC administers the Cooley Loan Program, which lends excess local currency obtained by the U.S. Government through sales of agricultural commodities to developing countries under Public Law 480. Since FY 1981, OPIC has made seven Cooley Loans, all in Pakistan, for a total amount of local currency equivalent to $14.7 million. Five of the projects have involved the manufacture of basic pharmaceutical products. Funding for this program is contingent on the availability of local currency in Pakistan which is becoming increasingly scarce.

Loan Guaranty Program

OPIC's Loan Guaranty Program provides U.S. financial institutions with guaranties--backed by the full faith and credit of the United States--for loans made to eligible U.S. investors for projects in developing countries. These guaranties protect against commercial as well as political risks.

An OPIC-guaranteed loan can provide investors with a significant portion of medium to long-term borrowing for ventures in countries where conventional financial institutions are reluctant to make commitments. Thus, OPIC's Loan Guaranty program complements and supplements the lending and investing facilities of commercial banks, as well as local, regional and international development banks. Such guaranties also play an important catalytic role in attracting funds from a variety of sources (including multilateral institutions) to a number of highly developmental projects in poorer developing countries.

As one example of such a loan guaranty, OPIC committed to assist the first major private sector industrial project to be undertaken in Tanzania in many years, and the first major U.S. investment since the country gained its independence. The Kilwa Ammonia Corporation is proposing to undertake a major fertilizer project, utilizing recently discovered natural gas reserves. This $590 million project will provide net foreign exchange earnings on average of $43 million per year and will contribute an additional $21 million in tax revenues annually. The project will create job opportunities for about 275 Tanzanians, supply medical and other services to the resident community, and provide the supporting infrastructure, including a gas pipeline, a desalinization facility and a deep-water port.

Another example is a $5.9 million OPIC loan guaranty to the Liberian Agriculture Company which will be used to expand the company's existing rubber plantation and processing plant. The Liberian economy will benefit from the creation of 600 new jobs. In addition, the plant expansion will permit the facility to process the output of nearby smallholders.

Both large and small investors are eligible for OPIC's Loan Guaranty Program. As of September 30, 1985, outstanding Investment Guaranties totaled $530 million. Of this amount, 41 percent, or $214.9 million represents funding for projects in Sub-Sahara Africa.

In both the direct loan and loan guaranty programs, OPIC is taking steps to comply with OMB circulars A-70 and A-129, including a program for risk sharing.

Mr. Chairman, it would be difficult to overestimate the importance of the role of private investment in the development process as the nations of the Third World strive to build their economies to levels that will create employment, generate capital, teach new skills and lessen dependence on expensive imports. That the OPIC finance programs are an important factor in the investment process is borne out by the record of the past five years when we provided loans and guaranties for more than $5 billion in investment throughout the world. An analysis of the developmental and U.S. effects of the Finance Program results from Fiscal 1981 - 1985 appears in Appendix A.

In conclusion, Mr. Chairman, let me say once again that U.S. private investment will play an increasingly important role in the development process as the world grows even more interdependent in the future. It is worth restating that as the fledgling economies of the Third World begin to gain strength through the infusion of private capital, their market potential will increase and provide new outlets for U.S. goods and services. OPIC's finance program makes a significant contribution to the U.S. economy and balance of payments while fulfilling its development mandate. Finally, OPIC is self-sustaining and does not require direct Congressional appropriations, although Congress sets program limits for direct loans and loan guaranties.

It is an economic fact of life that the needs of the developing nations are increasing steadily at a time when concessional aid from the industrialized world is not rising. The realization that public sector programs simply cannot meet these growing needs has given rise to a new surge in interest in private sector participation.

We believe that to meet these development needs will require the effective marshalling of public and private resources to an even greater degree than in the past. We believe that OPIC's finance programs represent a small, but significant element in the building of a more prosperous and peaceful world.

APPENDIX A

FINANCE

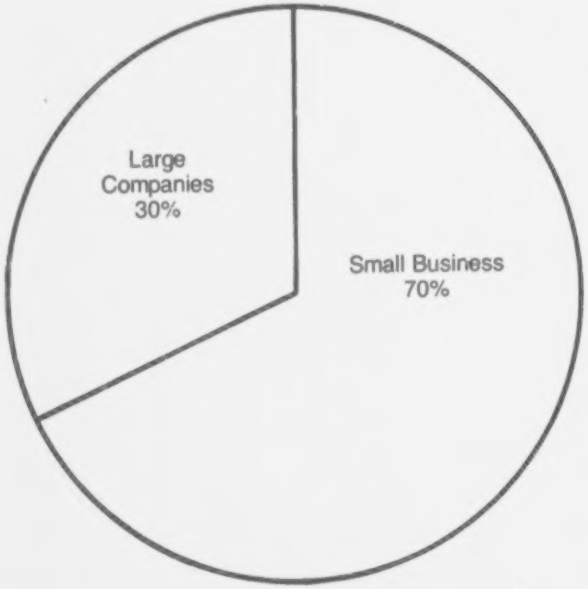
DEVELOPMENT EFFECTS/PROGRAM RESULTS

FY' 81 - 85

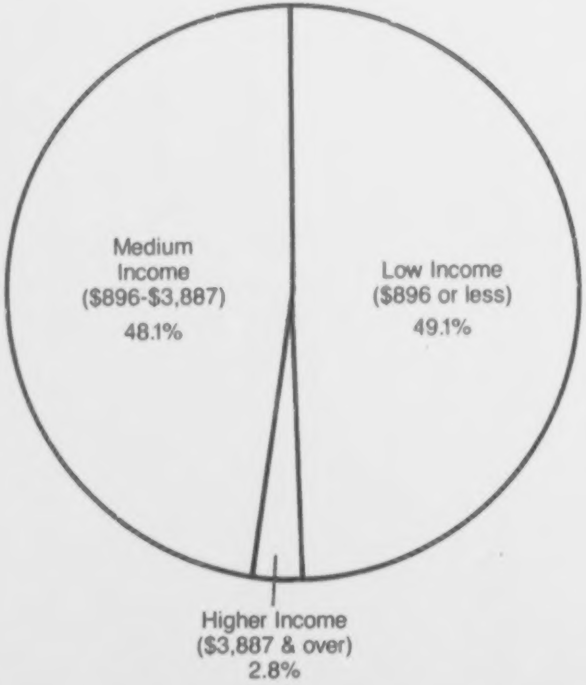
Total Project Investments	$5,017,966,017
U.S. Effects:	
Total Direct U.S. Exports (5-years & initial procurement)	$1,894,095,334
U.S. Employment Effects (5-years)	18,800 man-years
Developmental Effects	
Annual Exports Generated	$2,090,323,957
Annual Imports Replaced	$ 429,068,890
Net Foreign Exchange Impact	$1,087,490,157
Total Local Labor Impact	22,100 persons

OPIC Loans/Guaranties

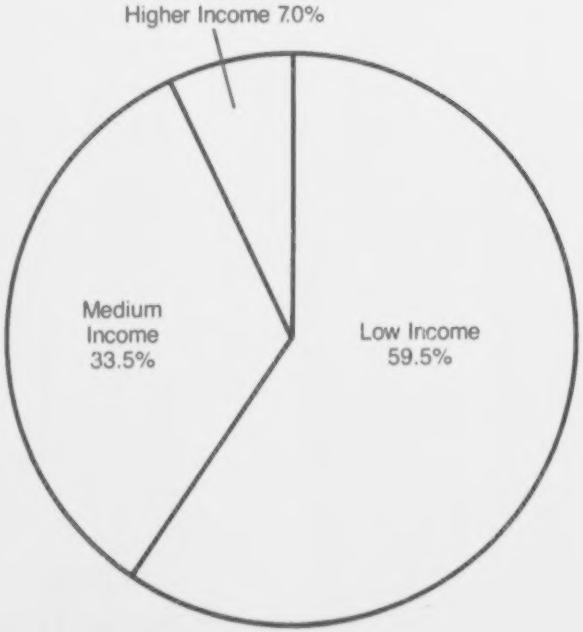
Fiscal 1981-1985



Finance Commitments
By Host-Country Per-Capita Income
Fiscal 1981-1985

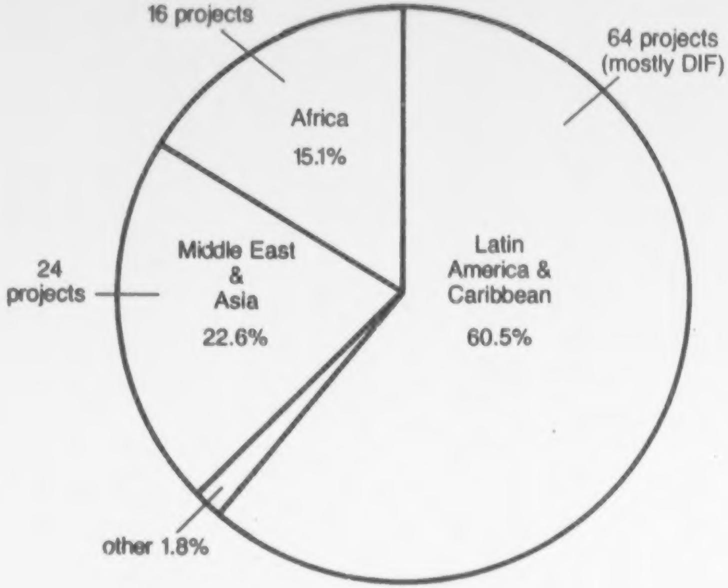


Finance Commitments
By Host-Country Per Capita Income
Percentage of Total Dollar Commitments



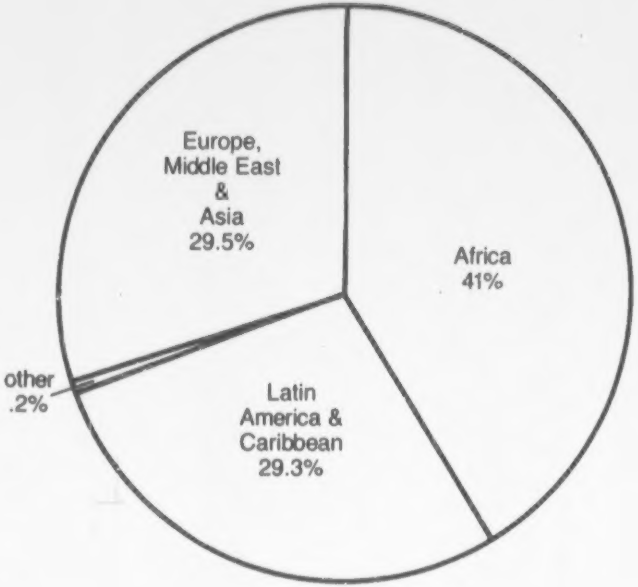
Finance Projects Geographic Distribution

Fiscal 1981-1985



Finance Portfolio Commitment Geographic Distribution in Dollars

Fiscal 1981-1985



Mr. **Obey**. Could I ask you, because we are both in a very bad time bind, and have an engagement we are supposed to be at at 12:30, and we are not going to get to ask you what we need to ask you, unless we can request you to wrap it up.

Mr. **Nalen**. Give me one more sentence. I was winding it up by saying I was embarrassed to ask for funds, for us to spend our own funds to the tune of $150 million and $15 million, which by Washington standards is peanuts. These programs are important to us. I think the record shows we have utilized them well. We have the people in place and we are simply asking for your approval to go ahead and spend these funds in the manner in which we have in the past.

Mr. **Obey**. Let me ask you three quick questions and then I will ask Mr. Mrazek to proceed. If you could keep your responses as short as possible, I would appreciate it and then you can fill it in for the record.

OPIC INSURANCE CLAIMS EXPERIENCE

You have had a good deal of success in increasing your insurance coverage while decreasing payment on claims. Ex-Im had the same kind of experience up until 1980, then they started running into some trouble, going the other way.

Can you tell us what is different about you? Why shouldn't we expect you to run into the same experience Ex-Im did?

Mr. **Nalen**. I think Ex-Im programs are aimed at export financing. Ours are concerned with American businessmen making investments in developing countries. The developing countries now more than ever recognize the need of trying to create an environment that attracts investment. There is less likelihood for expropriations which is where we have our biggest exposure to take place in a country that is trying to provide itself some stature in the industrialized world.

Our claims experience, as you know, if anything, have gotten stronger since 1981. We see no reason to expect that figure to change at all.

EXPANSION OF OPIC ROLE

Mr. **Obey**. Last fall, the news accounts stated that the Food, Hunger and Agriculture Subcommittee, and the State Department's Advisory Committee on Investments and Technology and Development had proposed that primary economic development responsibility for U.S. foreign aid programs be transferred from AID to OPIC along with $2 billion in AID's bilateral development assistance budget.

What is the story on that? Is OPIC looking for that? What changes would be necessary to carry it out and what has been the response inside the Administration?

Mr. **Nalen**. You have asked me an embarrassing question, Mr. Chairman. I am but a bit player in the scene. We have brother and sister agencies around, all of which are fighting for various hunks of the turf. We just do our job. We have obviously proven ourselves to be an agency that is capably run with a business philosophy and maybe that is why there was some feeling that we ought to be administering and having greater responsibilities.

I have played no role in that. I can only tell you that should such a decision be made, that the funds would be placed in good hands. [Laughter.]

PRIVATIZATION OF OPIC

Mr. **Obey**. One last question and then I will put two others in the record. According to the fiscal 1987 federal budget appendix, the Administration has decided to privatize OPIC. What is the status of that? When we will be getting substantive proposals? Exactly what does the Administration mean by it?

Mr. **Nalen**. You wanted a brief answer and that is going to be tough. I will try to make it short and sweet. We are all aware that the winds of privatization are blowing across Washington. It is a very popular topic of conversation. OPIC is one of many government entities that has been targeted, and I guess for obvious reasons. We are most like a private enterprise. We do generate funds. We do make a profit. We are run on a self-sustaining basis. It is natural, I guess, that OMB and the Administration would target us as such an entity.

I don't necessarily disagree with that philosophy. I think the business of government is to stay out of business. If you can provide the same benefits as a private enterprise that OPIC provides right now as a government entity I say bully for that and it probably ought to be done and the American taxpayer would come out ahead.

I don't know if this can be done or not. Along with what we are doing with OMB and I think it is the Council of Economic Advisors, CEA, we are separately setting aside some funds which we will use to fund a study, an independent study, made by a New York investment banking firm, very independent and very much a part of the Washington scene, to take a look at all sides of OPIC, to see whether it is feasible to create a model that could be privatized.

At this point in time, I couldn't tell you whether it is going to happen or not. We have a business to run and that's what we are directing our people to do. If, somewhere down the road, it looks like it is a good idea to privatize OPIC, I'm sure Congress will get involved before we are all finished.

OPIC STUDIES

Mr. **Obey**. I have two other questions to put into the record involving studies which OPIC is supposed to be undertaking. I will put those in the record and you can respond to Mr. Mrazek.

Mr. **Mrazek**. Thank you, Mr. Chairman.

PRIVATE BUSINESS ASSISTANCE CEILING

How close are you to your ceiling, as far as assisting private business, both within the $150 million category as well as the "Direct Loan" category of $15 million?

Mr. **Nalen**. Each year, we have the $150 million and $15 million. We loan right up to the hilt on that. There is more demand than supply.

Mr. **Mrazek**. Is there demand from responsible business entities that you would like to see receive assistance that could be doing a lot of good things if that ceiling were increased?

Mr. **Nalen**. Yes. We pick and choose as it is now. We turn down many, many projects because we can afford to be selective. The answer is yes, very definitely. Nor would we ever do anything that is irresponsible. We have a mandate to run this thing in a business like way.

Mr. **Mrazek**. I know you haven't sought more today. If your allowance were increased from $150 million to $175 million, you could see those guarantees went to some very worthy investors?

Mr. **Nalen**. Easily.

NORTHERN IRELAND

Mr. **Mrazek**. In relation to a $250 million initiative that has been approved by Congress for assisting Northern Ireland, we are all fairly well acquainted with some of the volatile conditions in Northern Ireland, and personally I am wondering whether you have received applications, or initiatives, from the private sector in this country to invest in Northern Ireland, provided that certain guarantees, insurance in particular, could be acquired, which would protect them in the event of some type of terrorist activity?

Mr. **Nalen**. To my knowledge, our door has not been banged down by applications. However, I think it is well known in the business community that OPIC's programs do not operate in Ireland. Maybe that is one of the reasons. I think we have had several over the years.

The second part of the question which you have not asked but if I could anticipate, would our programs have applicability to Ireland, the answer is definitely yes. I guess we are waiting for the other part of the Congress to deliver us those marching orders. When that becomes law, we would establish bilateral agreements with the governments over there and our programs would be applicable. That would be a little more strain on our limited resources but we would certainly do it with enthusiasm.

Mr. **Mrazek**. Was it anticipated that even with this infusion of new American dollars in Northern Ireland, that your allocation would still be held to $150 million as far as what you could work with?

Mr. **Nalen**. Yes. No one has indicated anything other than that.

Mr. **Mrazek**. It would seem to me this is a far better investment of our AID dollars than some of the money that might be going to direct assistance, simply because American entrepreneurs who would be looking forward to investing there would not necessarily be viewed perhaps with the same suspicion as certain government entities saying this is where we think the money ought to go, considering that all of those governmental entities are somehow suspect from one side or another.

Mr. **Nalen**. I could not agree with you more.

Mr. **Mrazek**. I would look forward to investigating the possibility of seeing that, as far as the total commitment that we are planning to make over the next five years in Northern Ireland, a portion of that be allocated to guarantees along the lines of what OPIC is doing with many other countries.

Mr. **Nalen**. We could fit it in very easily and would do it with great enthusiasm.

ECUADOR

Mr. **Mrazek**. I understand you have sent a trade mission to Ecuador. What is the climate for investment in that particular country?

Mr. **Nalen**. Ecuador is one of the bright spots, as you know. The President is a remarkable guy, a good businessman himself. It is the third of the Andean Pact countries that have made a flip flop and are starting to make overtures to attract U.S. investment. They really mean it. We had an enormously successful investment mission there. We have a follow-up next week. The climate is relatively good? All of Latin America is a tough sell in terms of trying to attract American businessmen. It is clearly a notch above its neighbors.

Mr. **Mrazek**. I must confess that when the bottom fell out of the oil prices, that it is fair to say that policies of Ecuador's President are under increasing pressure and conceivably American investment down there can help alleviate some of that pressure.

Mr. **Nalen**. If ever there was a country and a man we should be responding to, it is that government and that man.

Mr. **Mrazek**. I would agree with you. Thank you, Mr. Chairman. I have no further questions.

Mr. **Obey**. Thank you, gentlemen. We appreciate it. We will recess for lunch at this time.

Questions for the Record Submitted by Mr. Obey

1. U.S. Effects Study

Question. Section 14 of the 1985 OPIC Reauthorization bill (PL 99-204), mandated that a major study be undertaken by OPIC of the actual effects of OPIC activities on employment in the United States.

(a) What steps have been taken to plan this study?

(b) How much money has been programmed for it?

(c) Will OPIC contract-out the study or do it with existing staff?

Answer. (a) OPIC has prepared an internal memorandum describing the methodology it proposes to employ. Within the next few months it will retain a consultant to review that memorandum and to propose whatever changes are necessary to ensure that the objectives contained in the statute are being met. Thereafter, as required by law, it will consult with the membership of its oversight committees. We expect this process to be completed by the end of the summer so that OPIC will be able to begin its study in FY 1987.

(b)(c) OPIC plans to conduct the study in part itself and in part with a contractor. Since the actual division of labor for each party has not been decided, it is not possible to estimate the costs associated with employing a contractor. Thus, no money has been programmed for the study. The Corporation should be able to cover these costs, however, out of FY 1986 and FY 1987 availabilities.

Question 2. Mr. Nalen, in your testimony you say that OPIC has in recent years fully utilized its authority for direct loans and guaranteed loans. How many business deals have you found it necessary to turn away in recent years?

Answer. In general, historical demand for OPIC loan funds has exceeded supply. Although exact figures are not available on applicants turned away due to insufficient funds, both the IG and DIF authorities were fully utilized in FY 1985 and 1984. In fact, demand has generally exceeded program levels for both programs over the last five years. In addition, under the IG program, $170 million in applications were processed in FY 1985 against the program ceiling of $150 million. As a result $20 million of IG commitments were deferred to FY 1986's authority.

Demand continues to exceed supply during FY 1986. In the current pipeline of pending applications are 15 loan requests, totalling $37.4 million, for the DIF program. There are also 20 applications, representing loan requests of $300 million, for the IG program.

Question 3. Could OPIC fully utilize direct loan and guaranteed loan limitations of $20 million and $200 million per year without seriously affecting its financial position?

Answer. The Administration's budget for FY 1987 includes a request of $15 million for the direct loan program and $150 million for the guaranty program. Over the last five years, demand has generally exceeded program levels for both the DIF and IG programs. In FY 1985, the DIF authority was fully utilized and applications processed under the IG program totalled $170 MM. $20 MM had to be deferred to FY 1986. In addition, the average size of the DIF loan was about $900,000 suggesting perhaps that past program increases have not kept pace with the impact of inflation on project costs.

As of September 30, 1985, OPIC had reserves totalling $175 million which is more than adequate to cover any increases in the programs. Section 234(b) of the Foreign Assistance Act requires OPIC to have a guaranty reserve equal to at least 25% of the guaranties then issued and outstanding or committed. At the end of FY 1985 OPIC's reserves exceeded the minimum required reserve level (which is considerably higher than the levels maintained by the banking industry) by $41.1 million. As part of its normal operating procedures, OPIC continually examines it reserve levels for doubtful loans to ensure their adequacy.

Question 4. Mr. Nalen, would you provide the Committee for the record a complete listing of OPIC financed, guaranted, or insured projects since 1980, including a description of each the U.S. company involved and its address, the location of the project and its dollar size?

Answer. Projects financed/insured since 1980:

A listing of projects financed between FY 1980—FY 1985 is attached (see Appendix I).

A listing of projects insured between FY 1980—FY 1985 is attached (see Appendix II).

Nchanga Consolidated Copper Mines, Limited. OPIC is guaranteeing a $30,000,000 working capital loan to this key Zambian company. As a result of the loan U.S. importers will have a contractual right to the annual purchase of 600 tons of cobalt, a strategic mineral which has been in short supply for over five years. The mining sector is vital to the Zambian economy, accounting for more than 21 percent of the country's gross domestic product.

Yemen-American Water Drilling Service, Limited. OPIC's direct funding of $720,000 to this small business contributes to the start-up of a contract well-drilling service in the Yemen Arab Republic. The company will drill, construct and service water wells for private, agricultural and industrial use. The primary benefit is the increased availability of fresh water for agricultural use and domestic consumption.

Arbor Acres Pakistan, Limited. A $750,000 local currency loan to this small business-sponsored project will assist a 31% expansion of the company's chicken hatching capacity and provide additional working capital to permit seasonal feedgrain purchases. The project will increase the supply of broilers and laying stock in one of the world's poorest countries. Approximately 40 new jobs will be created, and the transfer of advance grow-out farming techniques will make a major contribution to the economy of Pakistan.

Casa Comercial Munson S. de R.L. de C.V. A Direct Investment Fund loan of $600,000 finances in part the expansion of the sales, service and maintenance facilities of a Honduran distributor of Mack trucks. The project will give the company the capacity to provide repair service for 70% of Honduras' present heavy truck needs.

Taha El Roubi Transport Company, Limited. An OPIC guaranteed loan in the amount of $9,700,000 will assist the start-up of a contract freight hauling service in the Sudan over the Port Sudan-Khartoum route. The project will employ approximately 285 persons. Benefits to the U.S. economy will be substantial. In addition to the procurement of trucks, trailers, prefab buildings and spare parts in this country, a U.S. company will manage the venture under a long-term contract and provide training of local employees.

Helechos de Costa Rica. A $360,000 OPIC loan to this small business contributes to the start-up of a 22-acre leatherleaf fern farm in Costa Rica. Sponsored by a U.S. agriculturist with several years experience in the fern business, the project's production of non-traditional exports supports local priority agricultural programs. All production will be sold to Europe, thus generating substantial foreign exchange earnings. Some 40 new local jobs will be created.

Empacadora Nacional, C.A. With the help of an OPIC $1,200,000 loan, a U.S. small business will expand its existing operations in Ecuador with the addition of a shrimp feed mill and the installation of hatchery facilities for the production of young shrimp. The project helps assure a reliable supply of larval shrimp to the burgeoning local shrimp farm industry plus offering technical monitoring services, involving a significant transfer of technology.

Continental Murex Company. An OPIC loan of $700,000 provides funding toward the expansion of the company's line of paper products to include milk and juice cartons. The project is OPIC's first financing project in St. Vincent and resulted from the 1980 mission to the Caribbean sponsored by the President's Commission on Agricultural Development.

Fabrica Industrial de Alimentos de Honduras. The project, assisted by an OPIC $260,000 direct loan, involves an expansion of a small Honduran condiment packaging and processing plant. An estimated 30 manufacturing jobs will be created as a result of the project. The project makes local food products available in place of imports.

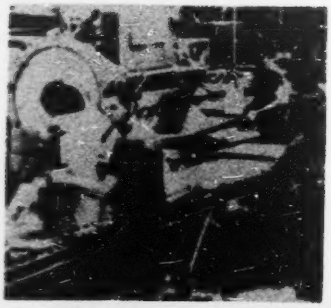
Societe Civile Immobiliere Les Tropiques (Ivory Coast). The project, financed in part by an OPIC guaranty of $3,400,000, entails construction and operation of a first class business hotel in Abidjan. Approximately 200 local workers will be directly employed.

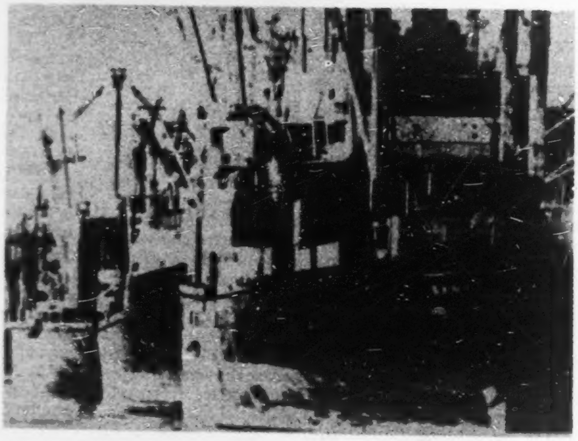
Alimentos Congelados Monte Bello, S.A. (Guatemala). An OPIC $800,000 Direct Investment Fund loan to this small business project in Guatemala will assist in expanding its frozen vegetable processing and packaging capacity by 75 percent. The project will increase local networks of contract growers by 300 and will generate foreign exchange. The enterprise complements the government's high priority assistance program for agricultural diversification. The company also provides financial and technical assistance to its network of 1,200 local contract growers.

Distribuidora Industrial, S. de R.L. This small business-sponsored project involves the expansion of existing distribution operations for U.S. electrical components and metering units. An OPIC loan of $360,000 will assist in the construction of a new warehouse, installation of computerized inventory control, and provision of additional working capital. The project will help the company meet supply commitments to several major infrastructure projects in Honduras. Additional spare parts inventory and improved inventory control are expected to help reduce electrical repair downtime.

Belize Cemcol Limited. A $420,000 investment guaranty finances in part the establishment in Belize of a new Caterpillar heavy equipment distributorship with sales, service and parts facilities. The project is sponsored by Caterpillar and its Honduran owners who are Caterpillar distributors in that country. The facility will provide the only professional repair facility for heavy equipment in Belize. It also will develop local repair and maintenance skills for equipment used in infrastructure development and in farming.

Ok Tedi Mining Company, Limited. The project involves the development and mining, in three stages, of an open pit gold and copper mine with related processing plants, infrastructure and logistical facilities. OPIC is participating in the financing through a $50 million loan guaranty. The project will provide significant tax revenues and foreign exchange earnings to the Government of Papua New Guinea and local employment generation is estimated at nearly 1,500. Project spin-offs include a new township, new social services and facilities, and the stimulation of local enterprises. This project represents OPIC's first involvement in Papua New Guinea.





Abbott Laboratories (Pakistan) Limited. OPIC has provided the company with a $2,500,000 local currency loan for the expansion and modernization of pharmaceutical operations and addition of new product lines. Production is for local consumption. Pakistan will benefit from added foreign exchange savings and an additional 164 workers will be employed.

Institute for International Development, Inc. A $75,000 investment encouragement loan, in conjunction with a grant, to this private voluntary organization is to be used for relending to small business projects in Colombia, Honduras, Indonesia and Kenya. It is estimated that over a ten-year period, proceeds from OPIC funds will benefit nearly 100 small business ventures in less developed countries. IIDI already has utilized OPIC funds in support of more than 50 projects.

Roan Consolidated Mines, Limited. An OPIC-guaranteed working capital facility of $30 million supports the company's existing copper and cobalt mining and processing operations in Zambia. As a result of the loan U.S. importers will have contractual rights to purchase 1,200 tons of cobalt annually for six years. Mining production accounts for some 90 percent of Zambia's exports.

Sharaf Cement Co., Ltd. Aided by a $40,000,000 investment guaranty, the company will undertake construction and operation of a 1 million metric ton cement plant near Port Sudan. Production will be for export primarily to Saudi Arabia, and for local use in critical infrastructure projects. The project is expected to effect foreign exchange savings of more than $80 million over its first five years of operation.

Finance Projects Committed in Fiscal Year 1981

Agro-Tech International, Inc. The repair and expansion of the company's poultry breeding and broiler farm capacity in the Dominican Republic will be financed in part by an OPIC loan of $400,000. This is OPIC's second financing of this U.S. small business and will contribute to increased local availability of protein.

Alumina Partners of Jamaica. The project involves a capital improvement program to open a new bauxite mine in Jamaica and make plant modifications. OPIC is participating in the financing through a $50,000,000 loan guaranty. The partners of the company are wholly-owned subsidiaries of the Anaconda Company, Kaiser Aluminum & Chemical Corporation, and Reynolds Metals Company.

Andre Greenhouses, Inc. An OPIC loan of $250,000 will support the start up of a rose growing small business in the Dominican Republic. The primary benefits of this non-traditional export crop will be increased foreign exchange and job creation in a rural, high unemployment area of the country.

Arkel Talab Cargo Services Limited. An OPIC loan of $1,185,000 will assist this small business in expanding its customs clearance, cargo and specialized trucking services in Sudan. Transportation problems have been a major constraint to Sudan's economic growth. The project will create approximately 26 new jobs, including training in equipment maintenance and operation.

Concentrados Marinos Bayovar, S.A. Aided by a $2,595,000 loan, the company will establish a fresh fish processing plant in Peru to produce fish protein isolate, a high protein food ingredient. The project has the potential for providing a significant new source of protein for local consumption and export. An additional 125 jobs will be created in an area of high unemployment and significant foreign exchange earnings generated. U.S. exports of equipment to the project are estimated at $2.7 million.

Designatronics, Inc. A $520,000 loan to this small business project in Haiti will assist in expanding its inductive electronic components manufacturing and assembly facility. The project will directly employ 330 Haitians and extensive technical training will be provided.

Fabritek La Romana. A loan of $2,000,000 finances in part the construction and operation of a cotton gauze facility. The project represents a backward integration of the company's existing surgical sponge facility in the Dominican Republic and will employ an estimated 200 additional people.

Goldsmith Seeds, Incorporated. A $260,000 loan to this small business contributes to the start-up of a hybrid flower and vegetable seed production and processing facility in Kenya. The project supports the government of Kenya's plans to increase productivity in the agricultural sector and represents a new, labor-intensive export industry. Some 80 jobs will be created.

Imperial Industries, Inc. This small business-sponsored project involves the start-up of a toy operation in Haiti financed in part by an OPIC $300,000 direct loan. Approximately 20 workers will be hired initially, and by the fifth year over 200 local sewing machine operators are expected to be employed.

Jamaica Broilers, Ltd. Aided by a $1,000,000 OPIC loan, the company will expand its integrated poultry operation in Jamaica with the assistance of a small U.S. poultry supplier and technical advisor. The project will benefit Jamaica through foreign exchange savings, more self-sufficiency in basic food production and the stimulation of the rural economy.

Marco Peruana, S.A. A $300,000 OPIC loan supports the distribution of hydraulic, electronic and refrigeration components and systems for the fishing industry and other industrial sectors in Peru. Peru's fishing fleet efficiency will be improved through the transfer of U.S. technology and upgrading of employee skills.

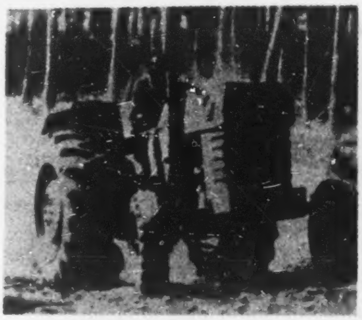
Merck, Sharp and Dohme of Pakistan Limited. A $2,930,000 local currency loan will enable the company to relocate its existing pharmaceutical formulation and packaging operation to a new, larger plant site and to expand its product line. This project will assist Pakistan in becoming self-sufficient in the manufacture of pharmaceutical products at a time when the need for improved health care is a priority item. Benefits to the Pakistani economy include foreign exchange savings, new employment opportunities and increased tax revenues.

Metal Fabricators of Zambia Limited. OPIC is guaranteeing a $2,200,000 loan for the expansion and modernization of the company's copper casting mill. The expansion will enable the company to increase its exports of copper rod to other African countries.

Nchanga Consolidated Copper Mines, Limited. OPIC is guaranteeing a loan of $30,000,000 as part of $250,000,000 of financing for a new tailings leach plant to recover metal from existing tailings dams. The mining sector is vital to the Zambian economy, and the project will contribute almost $1 billion in foreign exchange earnings over the 15-year project life.

PICO Products, Inc. An OPIC loan of $150,000 will assist the company in the start-up of a factory in St. Vincent to manufacture components of an electronic security device. An estimated 136 new jobs will be created and on-the-job technical training provided.

Pioneer Tuna Fishing Company Limited. The project, financed in part by an OPIC-guaranteed loan of $2,000,000, entails the acquisition of four existing 250-ton tuna fishing vessels by the company in satisfaction of Ghana's local ownership objectives. The project will assure a local cannery of a continued source of tuna and preserve the U.S. sponsor's access to exportable tuna from Ghanaian waters.



Polymer Lanka Inc. A $300,000 Direct Investment Fund loan will finance in part the company's investment in an existing Sri Lankan company manufacturing solid rubber tires and the expansion of its line to include shock absorber bushings. Rubber is one of Sri Lanka's major exports, and this project will introduce to the country advanced molding technology. Approximately 92 local jobs will be created.

P.T. Spicer Indonesia. An OPIC-guaranteed loan of $3,850,000 will assist in the construction of a vehicle parts assembly plant in Indonesia. The major benefits of the project to Indonesia will be net import substitution and creation of local employment. Since automotive components will be imported from the U.S., the project will have a positive effect on the U.S. balance of payments.

T.K.F.–American Egyptian Co. Ltd. The company, financed in part by a $700,000 direct loan, will design, assemble and sell conveyor systems to local manufacturers and industrial projects. The project will provide developmental benefits to the Egyptian economy through the training and employment of local personnel.

Witherspoon International Corporation. A $325,000 Investment Encouragement Loan to this non-profit corporation, together with an operating grant, is to be used to continue its relending program to small business projects in the Caribbean. Witherspoon has utilized OPIC funding in support of five small businesses in Antigua, Dominica, St. Kitts and Haiti. An estimated 170 jobs were created.

FINANCE

In fiscal 1982, OPIC's Finance Department assisted 20 projects by issuing loans and investment guaranty commitments totaling $108.7 million, and by placing a $1.5 million local currency loan. The number of projects supported equals 1981's record-setting level.

Sixty percent of the projects financed in 1982 were ventures sponsored by or significantly involving U.S. small businesses, and another 10 percent were sponsored by U.S. cooperatives. The relatively high participation by small business and cooperatives is in keeping with OPIC's continuing emphasis on this important segment of the American investment community.

Agribusiness and fisheries projects represented half of the total project financings, underscoring Third World emphasis on food production and processing. Given the small size of many developing-nation economies and a widespread shortage of infrastructure, these projects were relatively small in size, totaling approximately $22 million. By comparison, two mineral extraction projects averaged $34 million each.

As of September 30, 1982, the Finance Department portfolio, including authorized commitments which had not yet been disbursed, amounted to $433,595,765. OPIC's Direct Investment Fund contributed $41,225,759 of this total. The total finance portfolio is distributed 30 percent in the developing countries of Asia, 48 percent in Africa and 22 percent in the Caribbean and Latin America. Since OPIC commenced operations as a separate entity in January 1971, it has financed or agreed to finance $610.7 million in 109 projects spread over 38 developing countries; approximately 71 percent is included in the current finance portfolio. The total value of projects in which OPIC has contributed to the financing now exceeds $2.8 billion.

Finance Project Descriptions

Distribuidora Industrial, S. de R.L.—Honduras. An OPIC loan of $200,000, the second loan to this company, will assist this small business in backward integration of existing distribution operations for U.S. electrical components. The assembling of electric products will help the company meet supply commitments to several major infrastructure projects in Honduras.

Tabor International—Honduras. With the help of a $135,000 loan from OPIC, a U.S. small business will expand its existing furniture manufacturing facilities in Honduras with the installation of new equipment purchased in the U.S. Some 30 new local jobs will be created in this export-oriented project.

Carrick Foyle—Jamaica. OPIC's direct funding of a $300,000 loan to this small business will contribute to the start-up of a small integrated poultry operation on the north coast of Jamaica. The project, with 58 new employees, will increase the availability of quality dressed poultry to the tourist area. Technology and technical assistance will be provided by a U.S. small business.

Wear Well Tyre and Tube Limited–India. A $450,000 OPIC loan will assist this small business in the start-up of an industrial and specialty tire manufacturing plant in rural India. The company's production, which will not compete with U.S. manufactured tires, will be sold locally as well as to Europe, Canada and the Philippines. The project will create 80 jobs in an area of high unemployment, and will be OPIC's first participation in a small business loan in India.

Tim-Bar International Paper Corporation–Haiti. OPIC's combined direct loan and loan guaranty financing of $1.25 million will enable a U.S. small business corrugated paper and box manufacturer to establish a plant in Haiti. The production will supply domestic packaging to a number of Haiti's export industries. This new venture is a direct result of OPIC's 1981 Investment Mission to Haiti.

Jamaica Pre-Mix Limited. OPIC provided $490,000 in direct loan financing to this Jamaican company, the majority of which is owned by a U.S. small business. OPIC's financing will result in increased mobile concrete-mixing capacity to support the upsurge in Jamaican construction activity.

Arbor Acres Pakistan Limited. A second local currency loan, equivalent to $1.5 million, has enabled this majority U.S.-owned producer of day-old chicks in Pakistan to increase its hatchery and breeding capacity by 33 percent. The project will create approximately 80 new jobs, provide additional extension services to broiler farmers and increase the availability of relatively inexpensive meat protein in Pakistan.

The Liberia Company. This rubber plantation in Liberia is owned by a number of U.S. corporate and individual investors. OPIC's combined loan guaranty and direct loan financing of $1.9 million will enable the company to expand its plantation acreage, and increase processing capacity by 77 percent. The project will create approximately 200 new jobs in a very important export industry.

Jamaica Broilers Limited. This company is one of the largest and most efficient, fully integrated poultry ventures in the Caribbean. In its second financing to the project, OPIC has loaned $750,000 to expand blast freezer and holding room capacity in the company's processing plant. The project will involve initial U.S. procurement, and ongoing technical assistance from a U.S. small business.

Confederation of Latin American Credit Cooperatives (COLAC)—Panama. OPIC's $1 million direct loan will support a COLAC loan in an equal amount to the National Central Credit Union Ltd. of Paraguay, for the start-up of a cotton ginning operation. This is OPIC's third financing to COLAC, and will support 6,000 small cotton farmers in Paraguay by making them self-sufficient in ginning capacity.

FWH, Inc.—Costa Rica. This $3 million OPIC loan will help a small U.S. company expand its ornamental plant farm in Costa Rica. The expansion consists of clearing, fertilizing, irrigating and planting 1,000 acres of jungle land, and building additional packing facilities. The output of the farm will be exported primarily to Europe.

Galleon Beach Club Ltd.—Antigua. An OPIC guaranteed loan of $391,000 and a direct loan of $925,000 will assist this small business in expanding a hotel time-sharing resort on Antigua. The project will increase the number of cottages from 19 to 39 and improve the resort's infrastructure. This OPIC project is consistent with the Government of Antigua's commitment to provide additional year-round employment and foreign exchange earnings.

Aba El Mutasim Co., Ltd.—Sudan. OPIC is participating through a $5.9 million loan guaranty in the start-up of an integrated peanut oil processing facility near Khartoum, Sudan, for the production of refined edible oil and soap products. Two U.S. small businesses are providing equipment and technical assistance.

Ismailia Dairy Company—Egypt. Aided by a $1.5 million OPIC loan, this Egyptian company will establish a plant for the production and distribution of high quality dairy products. Sponsored by Land O'Lakes, Inc., a U.S. agricultural cooperative, and local Egyptian partners, the project will assist in organizing local farmers into a producers' cooperative.

BCN Leasing—Arrendamento Mercantil, S.A.—Brazil. An OPIC loan guaranty of $10 million will help this Brazilian leasing company expand its portfolio of leases primarily to small- and medium-size Brazilian companies involved in construction, manufacturing, and commerce, many of which are located outside the country's major industrial and population centers.

Philippine Grinding Balls, Inc. An OPIC-guaranteed loan of $5 million will be used to construct and operate a $28-million plant in the Southern Philippines to produce grinding balls for the mining and cement industries in the Philippines and Southeast Asia. The plant will use new casting technology, and is located in a priority region for economic development.

P.T. Sinar Abadi Cemerlang—Indonesia. A $7.4 million OPIC-guaranteed loan will partially finance the purchase and refurbishing in the U.S. of three tuna seiners for operation in Indonesian waters. Starkist Foods Inc. benefits from a new source of supply under a long-term purchase agreement. The tuna will be canned and marketed in the United States. Indonesia will benefit by the generation of export revenues and introduction of purse seining techniques.

Ghana Tuna Fishing Development Co., Ltd. This $480,000 loan guaranty issued by OPIC is to acquire and operate two tuna fishing vessels in Ghana. The company presently operates four vessels. The project satisfies both the Government of Ghana's requirement to transfer fishing boats to local ownership and the U.S. investor's desire for a steady supply of tuna from the Gulf of Guinea.

National Diamond Mining Company, Limited—Sierra Leone. OPIC is guaranteeing a loan of $18 million for the development of an underground kimberlite diamond mine in Sierra Leone. Production from this project will replace the gradually diminishing alluvial diamond deposits, which have been a cornerstone of the Sierra Leone economy for many years. The project will assure two small U.S. businesses involved in the processing and wholesale of diamonds of a reliable long-term source of supply.

Oil and Gas Project—Ivory Coast. OPIC has committed to guarantee a loan of $50 million to a consortium headed by Phillips Petroleum to develop and produce oil and gas offshore in the Ivory Coast. As a result of this project, the host country is expected to become self-sufficient in its energy needs. It is also expected to benefit greatly from foreign exchange savings and earnings as a result of the export of oil.

Finance Projects

Allied Tractors Limited—Pakistan. Financed in part by an OPIC loan guaranty and a local currency loan totalling $5.75 million, this project entails construction and operation of a plant in Baluchistan to manufacture Ford agricultural tractors. Ford Motor Company is an equity and technical partner in the project, which will be the only U.S. tractor manufacturing facility in Pakistan.

Arbore Agricola e Commercio Limitada—Brazil. An OPIC direct loan of $450,000 will finance the expansion of a micro-nutrient manufacturing facility in Brazil, which is sponsored by a U.S. small business concern. Fungicide production from the facility will provide higher agricultural yields in the region, and lessen dependence on imports.

Arkel Talab Cargo Services Limited—Sudan. A second OPIC loan of $1.8 million to this small business will assist the company in expanding its customs clearance, cargo, and specialized trucking services in Sudan. The project will support a successful company which has demonstrated experience in a key infrastructure sector that is vital to developing energy sources in the Sudan.

Cuirs Hawtan—Haiti. A direct loan of $300,000 will allow this U.S. small business-sponsored leather tannery in Haiti to expand existing operations and add new product lines. The project will also enable one of the last kidskin tanneries in the United States and several U.S. shoe factories to remain competitive with imports.

EDA Industries International—Barbados. This $336,000 direct loan is the first project loan made by OPIC in Barbados. It will help establish a manufacturing operation for producing costume jewelry, corporate emblems and wire sunglass frames. Approximately 300 local jobs will be created through this export-oriented project.

Manufacture of fishing lures, jewelry fittings and awards.

Furs of Haiti—Haiti. An OPIC loan of $662,000 will fund the expansion of existing leather and rabbit fur assembly operations in Haiti, and the establishment of a new mink fur assembly line. The project, sponsored by two U.S. small businesses, will be supplied with U.S. raw materials and will produce goods similar to those now imported to the United States from the Far East.

FWH, Inc.—Costa Rica. Funding in the amount of $200,000 will help this Miami-based, small business concern expand its ornamental plant operations in Costa Rica by adding facilities for shipping its young plants to a new Jamaica project, where they will undergo final potting and grow-out (see below).

FHW, Inc.—Jamaica. OPIC financing of $107,000 will fund a new potting, growing and shipping facility in Jamaica for ornamental plants. This project will allow mature plants to be shipped to Holland for distribution throughout Europe. The loans for these two integrated projects (see above) constitute the initial stage of an expansion expected to involve more than $20 million in total project costs.

Haitian Fibers, S.A.—Haiti. OPIC's direct funding of a $300,000 loan to this small business will contribute to the start-up of a small baseball fiber manufacturing facility in Haiti. Using U.S. technology and management expertise, the project will create a new source of fiber supply to enable American baseball manufacturers to compete with Asian manufacturers.

Highmark/Jamaica, Ltd.—Jamaica. With the help of a $125,000 loan from OPIC, a U.S. small business will establish a plant for producing quality, boxed confectioneries in Kingston.

Poultry production.

Modern telecommunications system.

The final product will be sold primarily to the local tourist market. The project will create a number of additional jobs and training in candy production techniques.

Incola Services Comerciais do Brasil Ltda.—Brazil. Through a $570,000 OPIC direct loan, a small legal publishing company will expand its existing printing facilities in Brazil with the installation of new equipment purchased in the United States. The expanded facilities will permit the introduction of new accounting, bookkeeping and tax forms, and help to simplify paperwork and record keeping for Brazil's small business community.

Interra Exploration Company, Inc.—India. With the help of a $350,000 loan from OPIC, a small business will start a seismic data processing operation in Bombay, using American-made computer hardware. The resulting processed data will be used by the Indian government and the private sector to facilitate oil and gas exploration in India, the Far East and the Middle East.

PICO—St. Christopher. This $2.5-million OPIC loan will help a small company establish an electronic components assembly plant in St. Christopher. The project, the first OPIC-supported enterprise on this small Caribbean island, will create approximately 700 local jobs. The components will be shipped back to PICO Products, Inc., of New York, where an additional 200 jobs will be created to assemble the components into cable television security products.

PICO—St. Vincent. OPIC funding of $800,000, the second loan to this venture, will assist the firm in expanding its electronic components assembly operation in St. Vincent. Eighty local jobs will be created to meet increased production needs. The finished components will be shipped to the United States for final assembly into the parent company's proprietary addressable control system.

Private Investment Company of Asia—Asia Region. A $15-million loan guaranty to this privately-owned, Asian-based development finance institution will be used to establish a long-term, relending program for private businesses in nine Asian countries. Companies receiving loans will be in predetermined target sectors and will be using exports, management or equity from the United States.

P. T. Kunci Kedamean Sheet Glass Company—Indonesia. An OPIC loan guaranty of $35 million will help Michigan-based Guardian Industries establish a modern float glass plant. The plant will produce lower-cost, higher-quality flat glass for local residential dwellings and commercial buildings. It will also generate exports to Asian markets in line with the government's objectives of diversifying the nation's economy.

Squibb Pakistan Limited—Pakistan. A $3.3-million local currency loan will enable this company to construct a facility for formulating, producing and packaging pharmaceutical products. The project will provide employment for some 200 Pakistanis, generate tax revenues, and reduce the country's dependence on imported pharmaceutical supplies.

Western Agri Production S. De R.L.—Paraguay. An OPIC loan of $1.1 million will assist this U.S. small business in establishing a wheat, soybean, and cattle ranch in Paraguay. Output will establish a new local source of food at reasonable cost, and help to meet Paraguay's nutritional needs.

White Nile Petroleum Company, Limited—Sudan. Through a loan guaranty not to exceed $50 million, OPIC is participating in the startup of an 885-mile, crude oil pipeline that will link Port Sudan with a major inland oil field being developed by the Standard Oil Company of California. The pipeline will provide the Sudan with access to a new source of oil outside the Persian Gulf, and with petroleum exports to generate significant foreign exchange earnings.

FINANCE DEPARTMENT

uring fiscal 1984, OPIC's Finance Department assisted a record 24 investment projects by issuing direct loan, investment guaranty and local-currency loan commitments of $103.5 million. In all, 71 percent of these projects were sponsored by or significantly involved U.S. small businesses.

Sixteen loans for a total of $10 million were made during 1984 from the Corporation's Direct Investment Fund, which is reserved exclusively for small-business firms. Of these, nine projects involved manufacturing or assembling operations, four were in the agricultural sector, and three were for fishing enterprises. The smallest direct loan was made for $150,000, while the largest amounted to $1.85 million. Overall, the average dollar amount of small-business loans committed in 1984 was $625,000.

In line with the Reagan administration's Caribbean Basin Initiative, 53 percent of total authorized funding under the Direct Investment Fund went to projects in the Caribbean Basin.

Six loan guaranties ranging from $2.25 million to $40 million were committed during the year, including the Corporation's first for a small contractor's project in China. In addition, two local currency loans totalling $3.0 million were committed for pharmaceutical manufacturing and packaging projects in Pakistan.

As of September 30, 1984, the Finance Department portfolio, including authorized commitments not yet disbursed, amounted to $443.7 million. OPIC's Direct Investment Fund contributed $46.6 million to this total.

The total finance portfolio is distributed 49 percent in Africa, 25 percent in Latin America and the Caribbean, and 26 percent in the Far East, Middle East, South Asia and Europe.

Since OPIC commenced operations in 1971, it has financed or agreed to finance $797 million in 144 projects in 47 developing countries; approximately 56 percent is included in the current finance portfolio.

Fishing, Ghana

FINANCE PROJECTS

Caribbean Sea Investments, Ltd.

St. Kitts: A $240,000 direct loan will fund the establishment of a one-boat commercial fishing operation involving gill net and pot fishing for spiney lobsters and local species fish. All of the seafood and fish will be sold locally or to neighboring islands. The project will create 12 part-time jobs, and serve as a model for the development of other fishing ventures in the Eastern Caribbean.

Choices, Ltd.

Grenada: An OPIC direct loan of $400,000 will help fund a plant in Grenada to package whole nutmeg into bottled nutmeg kits. This project will create a new marketing outlet for the 7,000 member growers of the Grenada Cooperative Nutmeg Association, and will employ 35 people during the initial phases.

Compania Uruguaya de Cemento Portland, S.A.

Uruguay: Through a loan guaranty of $2.25 million, OPIC will co-finance, with the World Bank, the modernization and quarry expansion of a privately-owned cement company in Uruguay. Modernization of the facilities will reduce dust emissions and provide significant energy-cost savings for the company.

Desarrollo de Rio Pacora, S.A.

Panama: An OPIC loan of $167,000 to this company will allow it to increase its acreage planted in coffee trees; to increase its nursery stock of coffee, wood and shade trees; and to expand existing processing, drying and storage facilities. The project is expected to generate much needed economic activity in an undeveloped region, as well as create 10 full-time and 20 part-time jobs.

Excellent Products Corporation, S.A.

Ecuador: This direct loan of $1.5 million to an existing OPIC client will fund expansion of the Company's shrimp farm operations, creating employment for 50 people, and providing training opportunities in modern shrimp-farming methods. The project is serving to develop an industry that is of high priority to Ecuador.

Fine Foliage International

Costa Rica: An OPIC direct loan of $1.2 million will result in the expansion of this company's leatherleaf fern operations, and the creation of an estimated 200 new jobs. The cut fern leaves will be marketed through the Company's existing wholesalers in Europe.

Freeze-Flo Corporation, Ltd.

Jamaica: An OPIC direct loan of $500,000 will equip and launch a fruit processing plant using a unique freeze-flow method to process papayas and bananas for export. The project will create 50 new jobs over a five-year period and employ approximately 10 small-farm owners, who will grow and harvest the required crops.

General Tyre & Rubber Company of Pakistan Ltd.

Pakistan: An OPIC loan guaranty of $3.5 million will aid in the construction of a new factory that will triple the company's tire manufacturing capacity. The expansion will introduce the latest manufacturing techniques, as well as employ 550 new workers, most of whom will be trained for skilled positions.

Grenada Sea Foods International, Ltd.

Grenada: A direct loan of $200,000 will fund the start-up of a processing and freezing plant in Grenada for spiney lobster and conch. The company will supply a local fishing cooperative with modern fishing gear, provide training for 50 local fishermen and purchase their catch for processing. Eight people will be employed by the project initially.

Helechos de Costa Rica

Costa Rica: An OPIC direct loan of $180,000 will fund the expansion of this leatherleaf fern farm, creating 12 to 15 new jobs and permitting some current part-time employees to work full time. While the majority of ferns will continue to be marketed through wholesalers in Germany, increased market penetration in the Netherlands will be pursued.

Ingle Grenada, Ltd.

Grenada: An OPIC direct loan of $350,000 has assisted in establishing this small factory to produce handcrafted wooden toys, Christmas ornaments and similar wood products. Approximately 300 jobs will be created by the project, and 50 workers will be taught new skills.

Johnson & Johnson Pakistan Ltd.

Pakistan: A $1.7-million local currency loan will enable this company to upgrade its surgical sutures packaging operation, and establish a pharmaceutical manufacturing and packaging facility. The project will employ 200 people and reduce the country's dependence on imported pharmaceutical supplies.

Kilwa Ammonia Company

Tanzania: Through a loan guaranty of $40 million, OPIC is participating in the start-up of a fertilizer plant that will produce ammonia and urea to be sold primarily for export in East African and Asian markets. The project will utilize undeveloped Tanzanian natural gas resources and generate significant foreign exchange earnings.

Maderas Tropicales S. Carlos, S.A.

Costa Rica: A $375,000 direct loan will allow this company to increase the capacity of its existing woodworking operations and to expand its product line. The project will create 50 additional jobs in an area of high unemployment, and provide training in the operation of modern woodworking and sawmilling equipment.

Grain storage, Korea

Marbro Coconut Company

Malaysia: A $1.85-million loan to fund the start-up of a desiccated coconut factory represents OPIC's first financing in Malaysia. The project will introduce modern and efficient equipment for shredding and preserving locally-grown coconut through a drying process. The project will employ up to 600 people.

Nile Village Investment Company

Egypt: A $20-million guaranteed loan will help construct a 425-room hotel and cultural facility in Luxor. In addition to the hotel, to be managed by Hyatt International, areas will be set aside for a performing-arts theater, and for craftsmen to make and sell handicrafts. The project will employ 600 people when fully developed.

Optiperu

Peru: A direct loan of $275,000 will establish a glass lens-grinding factory for producing prescription photosensitive eyeglasses, as well as a laboratory to prepare plastic and glass prescriptions for local opticians. The project will create 40 new jobs.

Organized Unit Concentrate Production

Yugoslavia: A direct loan commitment of $833,000 will help establish a state-of-the-art processing facility to produce fruit juice concentrates from locally grown fruit. Sixty-five percent of the project's production will be for export and the remainder will be sold locally. Approximately 60 people will be employed by the project. This is an initial funding of a multi-year, $1.5-million loan.

Oryx de Costa Rica, S.A.

Costa Rica: OPIC funding of $380,000 will allow this company to expand its existing manufacturing activities by installing a unit to refine crude and degummed corn and soybean oils into edible oils. Eight jobs will be generated directly by the project. Bottling and packaging materials needed by the project will result in the creation of additional job opportunities in other local industries.

Searle Pakistan Ltd.

Pakistan: A $1.3-million local currency loan will assist this company in constructing a new pharmaceutical manufacturing and packaging facility in Karachi. The new plant will permit more efficient operations and allow the company to expand its product lines in Pakistan.

Sotave Amazonia Quimica e Mineral, S.A.

Brazil: A $20-million, OPIC loan guaranty will be used to finish construction of a fertilizer manufacturing and distribution plant in Belem. The project will increase the availability of phosphate-based fertilizer products in the northern half of Brazil, as well as contribute to increased agricultural development of the Amazon and other undeveloped regions.

Systems and Applied Sciences Corporation

China: A $4.7-million loan guaranty will help this small U.S. firm complete its contract to design and build a Landsat earth receiving station for the Chinese Academy of Sciences, and to provide training for its use. The installation will help China improve its agricultural land use, and natural resource management.

TIA, S.A.

Honduras: An OPIC direct loan of $150,000 will provide funds to modernize and expand this company's facilities for manufacturing wooden, juvenile furniture. The expansion is expected to more than triple the firm's current level of production, as well as provide training and employment for 20 new workers in a rural section of the country.

Trelawny Vegetables, Ltd.

Jamaica: A $1.4-million OPIC loan will help establish a farm for growing, packing and distributing vegetables for winter export to the U.S. market, and supplying the local market during the off-export season. The project will directly employ 540 individuals, and another 330 people through its satellite farms.

Finance Projects

ABC Dominicana, C. por A.
Dominican Republic
A $4.5-million OPIC loan guaranty will be used to establish this 2,500-acre farm for growing, packing and distributing cantaloupes and cucumbers for winter export to the United States and Canada. At the peak of the growing season, the project will employ more than 3,000 people and provide technical assistance and marketing outlets for approximately 400 local growers.

Agro Inversiones, C. por A.
Dominican Republic
An OPIC loan of $500,000 will allow this company to expand its winter fruit and vegetable growing and packing operation. The expansion, which will quintuple production acreage and triple packaging capacity, will result in the creation of 422 jobs. During the off-season, the project will grow grain for local poultry feed usage.

Allied Circuits, S.A.
Haiti
A $350,000 OPIC loan will help fund Haiti's first printed circuit board manufacturing plant. The facility, which is expected to employ 125 people, will sell the boards to Haitian companies involved in circuit board assembly. The project will transfer previously unavailable technology to the country, and will reduce reliance on Far East imports.

Ankara International Hotel S.A.
Turkey
A $20-million OPIC loan guaranty will help construct a 350-room, high-rise hotel in Ankara's central business district. The hotel, to be managed by Hilton International, will be the first facility of five-star quality to be built in the capital city. The project will generate some 400 local jobs during the construction phase, and nearly as many jobs when completed.

The Arab Company for Optics
Egypt
An OPIC loan of $4.6 million will assist in establishing a manufacturing facility for producing eyeglass lenses and frames. An estimated 80 percent of the company's production will be marketed to Egyptian opticians, with the remainder exported to other countries in the Middle East and Africa. The project will employ 125 persons in skilled and unskilled positions.

Belize Timber, Ltd.
Belize
An OPIC direct loan of $1.5 million will help expand an existing logging and lumber manufacturing operation in western Belize. The expansion will provide for doubling its production of primary and secondary hardwoods, and will create employment for 22 individuals. Approximately 85 percent of the output will be sold locally to lumber wholesalers, the remainder will be exported to North America and the United Kingdom.

Cat-Ketch Cayman Corporation, Ltd.
Honduras
A $407,000 OPIC direct loan will fund the expansion of a power boat and sailboat manufacturing company near Puerto Cortes. To meet increased production capacity, the company will hire 155 new workers and provide training in woodworking and yacht production skills. The project supports the country's efforts to diversify its economy through increased non-traditional exports.

Concentrados Marinos Bayovar, S.A.
Peru
A $1.3-million OPIC loan will help refit four fishing vessels and complete a processing plant for producing fish protein isolate, fish meal and fish oil. In addition to creating 39 new jobs, the operation will provide the technology needed to fish in deeper waters. The project will also generate an increase in the amount of fish sold for human consumption rather than feed, a high priority of the Peruvian government.

Eli Lilly-Gohar Private Limited
Pakistan
Through a $1-million local currency loan, OPIC will provide funding for the rehabilitation of an idle pharmaceutical plant. The refurbished facility will manufacture, package and distribute antibiotics for the Pakistani market. The project, which will employ 66 people, will provide important foreign exchange savings as well as increased tax revenues.

Fabrica Industrial de Alimentos de Honduras
Honduras
An OPIC loan of $196,000 will fund the expansion of this condiment packaging and processing plant, thereby allowing the company to improve its operating efficiency, expand its chile pepper line for bulk export, and introduce mayonnaise for local sale. The expansion will create 15 new jobs, increase purchases from local farmers and generate foreign exchange savings.

Golden Bay Farms, Ltd.
Bahamas
A $400,000 OPIC direct loan will assist in establishing a 600-acre farm for raising and processing poultry for sale to the local market. The operation will create 30 new jobs on the island of Eleuthera, an area with very high unemployment. The project, located on a once-operational poultry/dairy farm, will allow many workers to resume their previous positions.

Jamaica Hotel Properties, Inc.
Jamaica
A $5.4-million loan guaranty and $600,000 direct loan will be used to refurbish, renovate and operate an existing 207-room beachfront hotel in Ocho Rios. The hotel, under new management and ownership, is expected to employ 270 Jamaicans and provide approximately $39 million in net foreign exchange for the country over the first five years of operation.

Korea Airtech Corporation
Korea
OPIC funding in the amount of $800,000 will assist in the start-up of a manufacturing plant to produce high-efficiency particulate air filters for use in the pharmaceutical, medical and electronic industries. The state-of-the-art facility will sell exclusively to the local market, and will be the first plant of its kind in the country. An estimated 30 jobs will be created by the project.

Liberian Agricultural Company
Liberia
A $5.9-million OPIC loan guaranty will provide funding for adding new acreage to a 25,000-acre rubber plantation and expanding the plantation's processing plant. An estimated 600 new jobs will be created in connection with the expansion plans. In addition, improvements made to the processing plant will permit nearby independent producers to use the facility.

Mariscos Reina del Pacifico, S.A.
Costa Rica
An OPIC direct loan of $400,500 will fund the expansion and modernization of a facility for catching, freezing and packing fresh shrimp and fish. The company will purchase the majority of its fish from local fishermen. The renovation and expansion will double packing capacity, upgrade health and quality standards, improve efficiency and generate 38 new jobs.

Philippine Long Distance Telephone Company; Philippine Global Communications, Inc.
Philippines
A $44.6-million loan guaranty will enable five privately-owned Filipino telecommunications firms to participate in the first fiber optic submarine cable connecting the Philippines and Guam. The cable, to be constructed and operated by AT&T, will allow the Philippines to meet increased demand for international telecommunications, offer an improved business environment and provide state-of-the-art technology.

Pinewood Products, Inc.
Honduras
With the help of a $1.4-million direct loan from OPIC, a U.S. small business will rehabilitate and expand a wood products manufacturing facility near Tegucigalpa. The plant will produce broom and mop handles, porch swings, picnic tables, and wood peg edging. This export project is expected to generate much-needed foreign exchange earnings, as well as employ and train 200 Hondurans.

Quimicas Stoller, S.A.
Guatemala
An OPIC direct loan of $150,000 will provide funding for backward integration of an existing fertilizer company. The expansion will allow the company to begin manufacturing fertilizers, as well as continue its distributing operations. The fertilizer, which will be marketed locally, is expected to improve crop yields and resulting agricultural export revenues. The expansion will create 14 new jobs.

Royden, Ltd.
Antigua
OPIC financing of $700,000 is helping establish a 200-acre farm to grow and package fruits and vegetables for winter export to Europe. In addition to employment for 188 Antiguans, the sponsoring company will provide technical assistance and marketing outlets to local farmers. During the summer months, the project will produce animal feed crops for local use.

Taino Farms, Ltd.
Bahamas
A direct loan of $502,500 will enable this company to establish a farm for growing and packaging papaya for export to Europe, the eastern United States and Canada. A juice processing facility will also be built to utilize fruit not suitable for export. The juice plant will supply the local market with a product that is presently imported. An estimated 38 jobs will be created by the project.

Trinidad Nitrogen Co., Ltd.
Trinidad and Tobago
A $40-million OPIC loan guaranty will support the expansion of an ammonia production facility in Point Lisas. An estimated $209 million in net foreign currency earnings will accrue to Trinidad and Tobago during the first five years of operations. Approximately 800 people will be employed during the three-year construction phase, while 80 permanent jobs will be created upon project completion.

Verhelechos, Ltda.
Costa Rica
An OPIC direct loan of $500,000 will fund the start-up of a 50-acre leatherleaf fern farm in Cartago. All of the farm's production will be purchased by a U.S. partnership which, in turn, will market the ferns to wholesalers in Europe. An estimated 200 jobs and significant foreign exchange savings will be created by the project.

Yemen Pipeline & Terminal Company
Yemen Arab Republic
An $8.9-million loan guaranty represents OPIC's first commitment for funding this 250-mile crude oil pipeline and export terminal linking oil fields in the eastern part of Yemen with the Red Sea. The $500-million project, which will employ some 300 people once pipeline operations begin, will provide valuable foreign exchange savings to a country with a severe balance-of-payments problem.

Yemen Refining and Marketing Company
Yemen Arab Republic
A loan guaranty of $20.7 million will assist in the drilling of five production oil wells in the Alif oil field, and the construction of a crude-oil gathering system and refinery. All production will be for use by the local Yemeni market. The project will meet half of the country's current refined products demand, and will provide $45 million in annual foreign exchange savings.

October 1, 1979–September 30, 1980

Company	Location	Project	Total Insured Investment This Investor	Largest Single Maximum Coverage
Abbott Laboratories	Nigeria	Pharmaceutical warehousing and distribution (expansion)	$ 1,232,961	$ 1,919,774
Aeronutronic Overseas Services Corporation****	Indonesia	Supply two satellite stations and necessary services	3,000,000	2,700,000
Agrico Korea Enterprises	Korea	Urea fertilizer plant (expansion)	1,500,000	1,350,000
AMAX Securities, Inc.	Botswana	Nickel/copper/cobalt mining and processing	27,000,000	31,066,000
American Bechtel, Inc.	Korea	Perform engineering and construction work	192,000	172,800
American Security Bank*	Pakistan	Increase petroleum production	500,000	785,000
American Security Bank*	Pakistan	Petroleum refinery (expansion)	500,000	755,000
Ameron, Inc.**	Saudi Arabia	Manufacture large diameter prestressed concrete pipe	18,056,000	17,470,800
ARMCO, Inc.	Philippines	Manufacture steel grinding balls (expansion)	4,000,000	3,840,000
Bank of America	Yemen Arab Republic	Commercial bank	2,200,000	3,960,000
Bethlehem Steel Corporation	Sierra Leone	Rutile mining	20,700,000	23,521,823
G.E. Boggs & Associates, Inc.****	Jordan	Supply, operate and maintain supervisory control and data acquisition system for city of Amman	120,000	108,000
Borden, Inc.**	Korea	Manufacture animal feed supplement	886,149	797,534
Brown & Root, Inc.****	Saudi Arabia	Construct causeway	5,742,000	5,167,800
Buck Engineering Co., Inc.****	Syria	Supply and install educational training systems	186,000	167,400

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Company	Location	Project	Total Insured Investment This Investor	Largest Single Maximum Coverage
C & W Trading Co.	Rwanda	Tea processing	$ 74,000	$ 199,800
Canberra Industries, Inc.****	Saudi Arabia	Supply and install hospital radiation monitoring system	1,592,132	1,432,919
Carnation International***	Korea	Manufacture animal feed and dairy products	1,200,000	720,000
Carnation International	Nigeria	Import and distribute dairy and food products	352,000	950,400
Chase Manhattan Bank	Thailand	Branch bank (expansion)	2,000,000	1,800,000
Chase Manhattan Bank	Zambia	Mining and processing cobalt (expansion)	8,000,000	16,000,000
Chemical Bank*	Pakistan	Increase petroleum production	2,500,000	3,925,000
Chemical Bank*	Pakistan	Petroleum refinery (expansion)	2,500,000	3,775,000
Chemtex, Inc.****	Egypt	Engineering services for polyester fiber plant	150,000	135,000
Citibank, N.A.	Ivory Coast	Branch bank (expansion)	1,860,000	1,674,000
Citibank, N.A.	Kenya	Branch bank (expansion)	450,000	405,000
Citibank, N.A.	Malaysia	Branch bank	2,860,000	2,574,000
Citibank, N.A.	Mauritius	Branch bank (expansion)	635,000	571,500
Citibank, N.A.	Niger	Commercial bank	750,000	1,050,000
Citibank, N.A.	Sri Lanka	Branch bank	650,000	585,000
Citibank, N.A.	Sudan	Branch bank	5,000,000	4,500,000
Citibank, N.A.	Taiwan	Branch bank (expansion)	4,952,417	4,457,175
Citibank, N.A.	Thailand	Development lending institution (expansion)	892,125	1,605,826
Citibank, N.A.	Yemen Arab Republic	Branch bank	652,056	586,850
O.H. Clapp & Co.	Rwanda	Tea processing	189,400	511,380
Crescent Construction Company	Saudi Arabia	Perform mechanical & electrical construction work	400,000	1,000,000
Cyclotron Corporation****	Saudi Arabia	Supply and install hospital cyclotron	3,407,537	3,066,783

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Cyclotron Corporation****	Saudi Arabia	Supply and install hospital radiation safety control system	$ 1,369,000	$ 1,232,100
Dana Corporation	Taiwan	Manufacture vehicle axles, shafts and joints	556,000	1,501,200
Diamond Shamrock Corporation	Korea	Manufacture potassium-based chemicals	2,200,000	1,980,000
Diamond Shamrock Corporation	Taiwan	Manufacture specialty chemicals	1,845,817	1,661,235
Dravo Corporation****	Taiwan	Sinter plant and blending facility	3,030,000	2,727,000
EFHCO, Inc.	Korea	Manufacture metalworking fluids and chemicals	700,000	630,000
First National Bank of Boston	Nigeria	Merchant bank	2,516,000	4,093,470
Fischbach & Moore****	Bangladesh	Design, supply and construct electrical transmission line	800,000	720,000
Flexten Systems, Inc.****	Saudi Arabia	Construct cancer research institute	365,094	320,484
FMC Corporation****	Jordan	Construct materials handling works for potash terminal	1,706,600	1,535,940
Freeport Minerals Co.	Indonesia	Copper mining (expansion)	30,000,000	27,000,000
General Electric Co.****	Jordan	Supply 18 locomotives, parts and training	4,783,920	4,305,528
General Electric Co.****	Syria	Supply locomotives, technical services, and training	4,600,000	4,140,000
General Electric Co.	Taiwan	Manufacture turbine generators	18,000,000	19,318,500
General Foods Corporation	Philippines	Manufacture food products	147,131	397,254
General Foods Corporation	Philippines	Manufacture food products	72,650	196,155
Genie Toys, Inc.	Haiti	Process and assemble stuffed toys	200,000	180,000
Gibbs & Hill, Inc.	Taiwan	Engineering and design services for power project	778,860	1,051,462
B.F. Goodrich****	Brazil	Manufacture vinyl chloride monomer	600,000	540,000

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GTE International, Inc.	Thailand	Manufacture fluorescent lamps (expansion)	$ 194,000	$ 523,800
Haifa Development Associates	Israel	Hotel	22,000,000	21,384,000
Hamco, Ltd.	Saudi Arabia	Perform mechanical & electrical construction work	400,000	1,000,000
Harris Corporation****	Greece	Supply and install telecommunications satellite earth station	500,000	450,000
Honeywell, Inc.	Thailand	Assemble integrated circuits	7,500,000	6,750,000
Honeywell Information Systems**	Yugoslavia	Manufacture computer hardware and software	9,250,000	12,645,000
Hood Corporation	Saudi Arabia	Construction company specializing in fuel pipelines and irrigation systems	2,126,000	2,500,000
IBM World Trade Corporation	Thailand	Computer center (expansion)	595,830	536,247
Intelco, Limited****	Jordan	Supply and install radio communication equipment	45,000	40,500
Intelco, Limited****	Jordan	Supply and install telecommunication towers	15,000	13,500
ITT Industries, Inc.**	Korea	Manufacture pipes	5,115,500	4,603,950
Johnson Products Co., Inc.	Nigeria	Manufacture cosmetic products	1,551,000	1,395,900
Ladd Petroleum Corporation	Congo	Petroleum exploration and production	22,500,000	20,250,000
Linson Investments, Ltd.	Indonesia	Pharmaceutical production (expansion)	2,016,000	2,259,237
Lyon Associates, Inc.****	Syria	Highway engineering and construction	325,000	292,500
Lyon Associates, Inc.****	Syria	Design and engineering services for communications	50,000	45,000
Master, Joseph J. et al	Costa Rica	Ornamental plants farm	300,000	648,000

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Mobil International Petroleum Corporation	Cameroon	Petroleum refinery	$ 3,430,000	$ 9,261,000
Mobil International Petroleum Corporation**	Yemen Arab Republic	Lube oil blending plant	11,662,000	15,019,200
Motorola Asia, Ltd.	Taiwan	Manufacture liquid crystal displays	1,800,000	2,952,000
National Cooperative Refinery Association, Texas City Refinery, Inc., and Indiana Farm Bureau Cooperative Association	Congo	Petroleum exploration and production	18,750,000	16,875,000
Nord Resources Corporation	Sierra Leone	Rutile mining	1,041,940	1,562,910
North Jersey Secretarial School	Haiti	Technical/vocational training school (expansion)	70,000	63,000
Quintana Refinery Co.	Egypt	Petroleum exploration and production	27,777,778	25,000,000
RAHCO DISC, Inc.****	Syria	Preparation and paving of irrigation canals and associated training	250,344	225,310
Raymond International	Sri Lanka	Clean and cement lining of water mains	370,553	333,481
RCA, Inc.****	Thailand	Supply and install telex exchange system	253,341	228,007
Riggs National Bank*	Pakistan	Petroleum refinery (expansion)	750,000	1,132,500
Rosario Resources Corporation	Honduras	Silver, lead, and zinc mining (expansion)	17,777,777	16,000,000
Scott Paper Company	Taiwan	Manufacture sanitary paper products	750,000	2,025,000
Servbest Foods, Inc.	Haiti	Pig and cattle raising and meat processing facilities (expansion)	619,447	1,672,506
Servbest Foods, Inc.	Haiti	Rabbitry (expansion)	167,996	453,588
Soule Steel Co.****	Syria	Supply and supervise construction of metal buildings	37,040	33,336
Stem Imports, Inc.	Dominican Republic	Flower cultivation	138,000	124,200
Stokely-Van Camp, Inc.	Dominican Republic	Food processing (expansion)	46,040	124,308

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Company	Location	Project	Total Insured Investment This Investor	Largest Single Maximum Coverage
Stromberg-Carlson Corporation****	Egypt	Supply and install telecommunications exchange offices	$ 200,000	$ 180,000
Stromberg-Carlson Corporation****	Egypt	Supply and install telecommunications exchange equipment	300,000	270,000
Tennessee Handbags, Inc.	Haiti	Manufacture vinyl and canvas handbags	920,000	940,500
Trans-Pacific Resources, Inc.	Israel	Manufacture agricultural fertilizers (expansion)	3,167,780	8,553,000
Union Carbide Corporation	Egypt	Manufacture dry cell batteries	5,218,500	8,000,000
Uniroyal, Inc.	Malaysia	Manufacture rubber gloves	625,900	1,689,930
Uniroyal, Inc.**	Taiwan	Manufacture specialty chemicals for the rubber industry	2,910,000	7,857,000
United States Leasing International, Inc.	Thailand	Equipment leasing company	62,500	168,750
Universal Foods Corporation	Philippines	Manufacture yeast (expansion)	280,000	476,000
Universal Leaf Tobacco Company	Brazil	Tobacco processing	1,247,247	3,367,640
V.T.N. International, Inc. and Frank L. Hope and Associates, Inc.****	Saudi Arabia	Consulting and engineering services for vocational facilities	1,189,770	1,070,775
Wallis & Company, Inc.	Honduras	Silver and gold mining	562,500	1,186,292
Weisglass, David	Haiti	Manufacture personal leather goods (expansion)	517,550	587,385
Harold O. Whitney, Inc.	Belize	General farming	900,000	1,620,000
Windsong Resorts, Ltd.	Jamaica	Tourist resort	150,000	135,000
Witco Chemical Corporation	Israel	Manufacture detergents and related chemicals (expansion)	250,000	675,000
H.B. Zachry Co.****	Saudi Arabia	Construct sewer and building connections	2,366,863	2,130,177

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OPIC Insured Investors

Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
A.B.A. Industries, Inc.	Costa Rica	Manufacture metal machine parts	$ 70,000	$ 63,000
Abbott Laboratories	Indonesia	Pharmaceutical production (expansion)	1,496,000	1,481,000
Air Products and Chemicals, Inc.	Korea	Manufacture industrial gases	2,785,000	2,506,500
American Express International Banking Corporation	Turkey	Branch bank	5,000,000	4,500,000
American Express International Banking Corporation	Sri Lanka	Branch bank	630,119	567,107
American President Lines, Ltd.	Philippines	Install crane and port terminal assets (expansion)	1,882,057	1,693,851
American Standard, Inc.	Thailand	Manufacture vitreous china sanitaryware (expansion)	105,000	1,093,500
American Standard, Inc.	Dominican Republic	Manufacture vitreous china sanitaryware	510,000	1,377,000
Ampex Corporation	Taiwan	Manufacture electronic components (expansion)	10,781,697	11,200,000
André Greenhouses, Inc.	Dominican Republic	Construct and operate greenhouses for rose production	500,000	765,000
The Anschutz Overseas Corporation	Dominican Republic	Hydrocarbon exploration development and production	83,333,333	75,000,000
Applied Magnetics Corporation	Korea	Manufacture magnetic recording heads (expansion)	1,400,000	2,965,500
Arcidy, Louis J., *et al.*	St. Lucia	Manufacture fixed wirewound resistors and coils	300,000	200,000
Arkel International, Inc.	Sudan	Cargo handling, customs clearance and transportation services	993,432	2,005,014
Armco, Inc.	Zaire	Manufacture nestable galvanized corrugated steel pipe	1,387,271	1,672,032
A-T-O, Inc.	Haiti	Manufacture baseball and softball gloves	1,250,000	1,137,420
BankAmerica International	Honduras	Manufacture electric wire and cable	1,500,000	3,000,000
Bank of America NT&SA	Pakistan	Branch bank (expansion)	787,180	708,462
Blount, Inc. & Blount International Limited****	Saudi Arabia	Construct academic facilities	122,222,222	110,000,000
Boggs, G.E. & Associates, Inc.****	Syria	Construct and install dispatching system to regulate water flow (expansion)	75,000	67,500
Boggs, G.E. & Associates, Inc.****	Syria	Install communication subsystem linking water stations and main control center (expansion)	25,000	22,500
Boudet, James L., *et al.*	Costa Rica	Plant and cultivate lime and orange groves	932,850	839,565
Brothers, William C.	Belize	Cedar shingle mill (expansion)	107,550	290,385

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Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
Buckbee Mears Co.	Singapore	Manufacture metal platings and stampings	$ 3,500,000	$ 3,150,000
Caltex (Overseas) Ltd.	Korea	Oil refinery (expansion)	3,810,585	7,621,170
The Carlson Group, Inc.****	Saudi Arabia	Construct student housing and vocational training center	3,377,316	3,039,585
Chase Manhattan Bank, N.A.	Dominican Republic	Branch bank (expansion)	999,320	899,388
Chase Manhattan Bank, N.A.	Dominican Republic	Branch bank (expansion)	1,000,000	900,000
Chase Manhattan Bank, N.A.	Thailand	Branch bank (expansion)	4,000,000	3,600,000
Chicago Bridge and Iron Company*	Netherlands Antilles	Petroleum blending, transshipment and marine bunkering facilities	6,500,000	7,420,500
Chicago Bridge and Iron† Company*	Panama	Construct petroleum pipeline	-0-	11,966,025
Citibank, N.A.	Indonesia	Branch bank (expansion)	6,800,000	6,000,000
Citibank, N.A.	Korea	Branch bank (expansion)	1,700,000	1,530,000
Citibank, N.A.	Malaysia	Branch bank (expansion)	2,716,000	2,444,400
Citibank, N.A.	Pakistan	Branch bank (expansion)	885,100	796,590
Citibank, N.A.	Senegal	Branch bank (expansion)	1,136,000	1,022,400
Citibank, N.A.	Turkey	Branch bank	1,000,000	900,000
Citibank, N.A.	Yemen (North)	Branch bank (expansion)	1,315,068	1,183,561
Citibank, N.A.	Zambia	Commercial bank	2,500,000	2,750,000
Citibank Overseas Investment Corporation	Korea	Lease to industrial, construction and medical sectors (expansion)	3,983,673	7,170,611
Citibank Overseas Investment Corporation	Taiwan	Trust and investment bank (expansion)	1,278,500	1,925,000
Consumer Services International Corp.*	Taiwan	Trust and investment bank (expansion)	1,278,500	1,925,000
The Continental Group	Korea	Manufacture aluminum beverage cans	4,800,000	4,320,000
Continental Illinois National Bank & Trust Co. of Chicago	Korea	Branch bank (expansion)	849,185	764,266
Continental Illinois National Bank & Trust Co. of Chicago*	Netherlands Antilles	Petroleum blending, transshipment and marine bunkering facility	6,000,000	12,000,000
Crescent Corset Company, Inc.	Honduras	Process pre-cut textiles	705,675	635,108
J. deBeer & Son, Inc.	Dominican Republic	Manufacture baseballs and softballs	300,000	270,000
Dravo Corporation****	Saudi Arabia	Construct and install desalting facilities	11,780,000	8,485,612
Ecology and Environment International****	Saudi Arabia	Prepare environmental studies	1,025,413	922,872
Federal Electric Corporation****	Saudi Arabia	Install hyperbolic radio navigation system	963,636	867,272
FMC Corporation****	Saudi Arabia	Manufacture and deliver traveling water screens and traversing trash rakes	1,063,426	871,847

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Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
The Foxboro Company	Korea	Manufacture industrial process control instrumentation (expansion)	$ 419,244	$ 377,320
General Electric Company	Malaysia	Manufacture television receiver components	200,000	972,000
General Electric Company	Philippines	Manufacture watt-hour meters	503,925	2,721,195
General Electric Company****	Saudi Arabia	Install turbine generator electric power plant	26,906,420	24,215,778
General Instrument of Canada, Ltd	Malaysia	Manufacture opto-electronic devices (expansion)	4,082,192	6,139,516
Gerber Scientific, Inc	Israel	Manufacture computer controlled sewing systems and security systems (expansion)	124,737	336,790
Goedecke, A.G.*	Egypt	Manufacture chewing gum and specialty food products	2,035,700	5,496,390
B.F. Goodrich Co.****	Syria	Supply of tires and tubes	214,515	193,064
Goodyear Tire & Rubber Company	Taiwan	Tire plant (expansion)	625,500	938,250
Harza Engineering Company International****	Thailand	Consult on dam construction	203,080	135,912
Health Care International****	Saudi Arabia	Staff and operate hospital	950,000	855,000
Intel Corporation	Israel	Manufacture semi-conductors	15,000,000	40,500,000
Intelco, Ltd.****	Saudi Arabia	Design and erect transmitting center	350,000	315,000
International Multifoods Corporation**	Egypt	Manufacture pasta and bread	1,100,000	1,620,000
ITC Industries (HK) Ltd	Dominican Republic	Manufacture toys and games	1,080,000	972,000
Kentron Pakistan Inc.****	Pakistan	Supply and install telecommunication network	3,475,615	3,128,054
Louisiana Land & Exploration Egypt, Inc	Egypt	Oil exploration and production	55,555,555	50,000,000
Marine Travelift, Inc.****	Tunisia	Supply and erect two mobile boat hoists	103,938	93,544
Mathieu, Ralph	Haiti	Jojoba bean plantation	75,000	69,750
Mobil International Petroleum Corporation	Ivory Coast	Oil refinery (expansion)	3,186,061	8,602,365
Motorola International Development Corporation	Philippines	Manufacture electronic devices	10,160,780	14,823,539
Northville Terminal Corporation*†	Panama	Construct petroleum pipeline	–0–	20,820,300
Overseas Bechtel, Inc.***	Egypt	Consult on electrical power generator	400,000	360,000
Owens-Illinois, Inc.**	Egypt	Manufacture glass containers	3,800,000	5,058,000
Pepper Construction International, Ltd.****	Saudi Arabia	Construct urea berthside loading facility	6,791,281	6,112,154

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Phelps Dodge Corporation**	Honduras	Manufacture electrical building wires and cables	$ 1,127,950	$ 1,605,465
Philadelphia International Investment Corporation	Thailand	Investment bank (expansion)	234,955	648,610
Planning Research Corporation****	Yemen (North)	Highway maintenance training program	514,645	463,181
Raymond International Builders, Inc.****	Saudi Arabia	Supply steel pipe for water desalination	14,317,000	12,885,300
Raymond International, Inc.****	Saudi Arabia	Construct berthing facilities	1,000,000	900,000
Reading & Bates Construction Company	Saudi Arabia	Construct steel pipeline	10,000,000	15,300,000
REPCO, Ltd	Honduras	Manufacture semi finished wood products (expansion)	68,850	185,895
Revlon, Inc	Thailand	Cosmetics distributorship (expansion)	856,000	2,430,056
Richardson Vicks, Inc	Kenya	Manufacture health care products	594,949	1,013,349
Robertson, H.H. Company****	Saudi Arabia	Supply and install wall enclosures	387,500	348,750
Seaward International, Inc.****	Saudi Arabia	Equip and service oil spill protection program	179,515	161,563
Somerset Welding & Steel, Inc.****	Syria	Supply 27 dump trucks and accessories	167,305	150,575
Southern Wood Piedmont Company****	Syria	Supply chemically treated wooden electric utility poles	980,000	882,000
Sprague Electric Company	Philippines	Assemble transistors and integrated circuits (expansion)	990,000	1,782,000
Standex International Corporation	Haiti	Assemble capacitors	770,000	729,225
Sylvania Overseas Trading Corporation	Haiti	Assemble metal and plastic components (expansion)	1,750,000	1,750,000
Tera Corporation****	Jordan	Implement database management information system	30,000	27,000
Tippetts Abbett McCarthy Stratton****	Syria	Provide engineering services for highway building project	184,500	166,050
Tri State Culvert Corporation	Guatemala	Manufacture metal culvert pipe, flood protectors and grain silos	900,000	810,000
Union Oil Company of Thailand	Thailand	Develop gas fields	281,120,000	100,000,000
Universal Leaf Tobacco Company, Inc	Brazil	Process tobacco (expansion)	1,649,250	4,452,975
Warner Lambert Company***	Egypt	Manufacture chewing gum and specialty food products	–0–	4,500,000
Western Electric International, Inc.****	Korea	Supply telephone exchange equipment	3,532,217	3,178,996
Western Electric Company, Inc	Korea	Manufacture electronics/ telecommunications equipment	9,156,756	8,241,080
World's Finest Chocolate Inc	St. Lucia	Rehabilitate cocoa plantation (expansion)	598,500	1,077,300

*Member of Multi-Investor Consortium
**Includes Technical Assistance, Services, or Rights
***Technical Assistance or Management Services Only
****Letter of Credit

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APPENDIX

INVESTORS INSURED IN FY 1982

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Abbott Laboratories	Philippines	Manufacture and fill plastic bottles	$ 833,000	$2,249,100
Abbott Laboratories	Pakistan	Pharmaceutical plant operation	3,960,000	7,715,250
Allied Tube & Conduit Corp **	India	Technical assistance for steel tube coating	1,600,000	1,440,000
Allis-Chalmers Corp ***	Egypt	Supply and erect turbines and pipework	2,653,386	2,388,047
American Home Products	Pakistan	Pharmaceutical plant expansion	3,204,410	3,089,751
American Microsystems, Inc	Philippines	Assemble integrated circuits	9,202,500	8,856,450
American President Lines, Ltd	China	Provide containerized shipping and handling equipment	972,000	874,800
American President Lines, Ltd	Pakistan	Improving container/ shipping operation	2,310,675	2,079,607
AMF (Hong Kong) Ltd	China	Manufacture inflated balls	950,000	855,000
Applied Magnetics Corp	Korea	Expansion of magnetic recording head manufacturing facility	600,000	1,620,000
Ardaman & Associates, Inc	Saudi Arabia	Geotechnical consulting services	121,000	653,400
Armco, Inc	Nigeria	Manufacture steel culvert	2,210,000	3,352,000
AT&T International Far Eastern, Ltd ***	Korea	Installation of telephone exchange systems	1,367,337	1,230,603
Bankers Trust Co	Guinea	Diamond mining	43,000,000	86,000,000
The Barber-Webb Co , Inc ****	Oman	Supply PVC liners and ancillary equipment	53,576	48,220
Beauvais, Clifford P, et al	Haiti	Expansion of jojoba plantation	38,000	67,950
Bestform Foundations, Inc	St Lucia	Assembly of women's undergarments	487,000	504,900
Boggs, G E & Associates, **** Inc	Syria	Dispatching system	50,000	45,000

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***Technical Assistance or Management Services Only
****Letter of Credit/Contractors

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Boggs, G. E. & Associates,*** Inc.	Syria	Communications subsystem	$ 39,000	$ 35,100
Boston Overseas Financial Corp.	Nigeria	Merchant bank expansion	1,138,613	1,024,752
Boudet, James L. & Springer, James T.	Costa Rica	Grow citrus trees	533,000	479,700
Byrd, Marcus Joe	Costa Rica	Produce fruit and beef	419,800	377,820
Cargill, Inc.	Taiwan	Expand feedmill	1,000,000	5,400,000
Cargill, Inc.	Thailand	Pelletize tapioca	8,335,000	12,361,500
Carlson Al Saudia, Ltd.***	Saudi Arabia	Telephone exchange facility	1,666,666	1,500,000
Carlson Al Saudia, Ltd.***	Saudi Arabia	Construct vocational training center	2,200,000	2,000,000
Carlson Al Saudia, Ltd.***	Saudi Arabia	Install potable and irrigation water lines	2,777,777	2,500,000
Caterpillar Americas Co.	Belize	Caterpillar heavy equipment distributorship	140,000	280,000
Caterpillar Far East, Ltd.	China	Spare parts for Caterpillar machines	2,300,000	2,070,000
Chemtex, Inc.	Egypt	Manufacture of acrylic paint	1,913,991	2,000,000
Chicago Bridge & Iron Co.***	Saudi Arabia	Construct oil storage tanks	2,985,620	2,687,059
Citibank, N.A.	Liberia	Expansion of branch bank	462,526	640,000
Citibank, N.A.	Turkey	Expansion of branch bank	5,751,000	12,600,000
Citibank, N.A.	Haiti	Expansion of branch bank	700,000	1,890,000
Citibank, N.A.	Pakistan	Expansion of branch bank	460,000	414,000
Citicorp Gulf Finance, Ltd.	Morocco	Expansion of a commercial bank	5,000,000	4,500,000
CM International Corp.***	Saudi Arabia	Mechanical, electrical and plumbing work for hospital	4,153,212	3,737,891
Commercial Credit International, Inc.	Israel	Expansion of machinery and equipment leasing capacity	66,666,667	76,209,165
COM-TRON, Inc.***	Sri Lanka	Training of technical personnel in the use of telecommunications equipment	575,000	517,500

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Corning Nederland B.V.	Indonesia	Manufacture heat-resistant glass dinnerware	$ 2,704,000	$ 7,300,800
CW Communications	China	Publish computer newsletter	122,500	220,500
Devco Overseas Co.	Saudi Arabia	Process sulfur	8,765,630	9,238,442
Dillingham-Pakistan***	Pakistan	Hydropower extension project	12,822,221	8,540,000
Dresser Industries, Inc.	China	Provide conductor wire-line services	1,000,000	2,700,000
Dynalectron Corp.	Saudi Arabia	Technical services for aviation machinery and heavy equipment	1,124,497	1,600,000
Federal Electric Corp.***	Saudi Arabia	Coastal radio navigation system	22,082,211	19,825,383
Ferro Corp.	Taiwan	Manufacture enamel frits, color oxides, and glass colors	2,200,000	4,400,000
Florida Four	Costa Rica	Cultivate lime and orange groves	482,000	433,800
Ford Aerospace and Communications, Inc.***	Egypt	Telephone facilities	2,000,000	1,800,000
General Electric Co.	Saudi Arabia	Maintenance and repair of major appliances	529,200	1,587,600
General Electric Co.***	Oman	Install 2 gas turbines	749,250	673,800
General Electric Co.***	Saudi Arabia	Install 3 gas turbines	6,450,520	5,124,542
General Electric Co.***	Saudi Arabia	Install 2 gas turbines	11,378,520	727,539
General Electric Co.***	Saudi Arabia	Install 2 gas turbines	11,246,112	800,172
General Electric Co.*	Singapore	Aircraft engine component repair facility	13,400,000	6,600,000
General Electric Co.***	Egypt	Construct power station	19,650,000	15,942,000
General Electric Co.***	Egypt	Construct power station	13,419,000	12,077,000
Gilbert Commonwealth International, Inc.****	Egypt	Consulting services for power plant project	1,990,000	1,791,000
The Gillette Co.	Egypt	Manufacture razor blades and associated products	3,319,000	5,613,300
Goedecke, A.G.	Senegal	Manufacture pharmaceuticals	2,436,000	3,758,400
The B.F. Goodrich Co.**	India	Technical assistance for upgrading of rubber factories	2,900,000	2,610,000

*Includes Technical Assistance, Services or Rights
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***Letter of Credit Contractors

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Grandey, Gerald W., et al	Costa Rica	Jojoba plantation	$ 81,360	$ 194,472
Gulf Petroleum Corp., S.A.	Taiwan	Chemical manufacturing	3,893,175	3,503,858
Gulf & Western Americas Corp	Dominican Republic	Expansion of electrical generating capacity in existing cement plant	1,275,340	3,443,418
Halmar Construction Corp ***	Jamaica	Sewer reclamation and expansion	1,166,666	450,000
Hans Construction Co	Sudan	Leasing of cargo handling equipment	550,000	495,000
Hexco Leasing Co	Sudan	Leasing of cargo handling equipment	1,390,000	1,251,000
Howard, Paul N. Co	Haiti	Expansion of construction company	3,200,000	4,890,000
Hoyt & Worthen Tanning Corp	Haiti	Expansion of tannery	400,000	468,000
Hudson Optical Corp	Korea	Eyeglass manufacturing	250,000	225,000
Hunt Oil Co	North Yemen	Oil exploration and production	111,111,111	100,000,000
Hurd, Otto William, (Jr.)	Costa Rica	Produce and process honey	100,000	180,000
Israel Dead Sea Oil Project	Israel	Oil exploration and production	16,359,519	14,723,568
ITT Industries, Inc	Korea	Expansion of pipe manufacturing operation	1,500,000	2,350,000
Kimberly-Clark Corp	Philippines	Expansion of paper products manufacturing facility	12,400,000	19,300,000
Kimberly-Clark Corp	Korea	Expansion of household and sanitary products manufacturing factory	6,036,000	10,864,000
Law Engineering Testing Co ***	Saudi Arabia	Riyadh University project	585,000	526,500
Mueller Co ***	Syria	Water control equipment	552,000	496,800
Occidental Exploration & Production Co	Pakistan	Oil exploration and production	111,111,111	100,000,000
Occidental Exploration & Production Co	Tunisia	Oil exploration and production	111,111,111	100,000,000
Occidental Exploration & Production Co	Oman	Oil exploration and production	111,111,111	100,000,000
Pan Am World Services, Inc ***	Saudi Arabia	Community operations and maintenance services	3,263,108	2,936,798

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Pinewood Products, Inc	Honduras	Expansion of wood products facility	$ 500,000	$ 450,000
Pogo Producing Co	Turkey	Oil exploration and production	47,619,048	42,857,143
PPG Industries, Inc *	Taiwan	Technical assistance for the manufacture of paints and coatings	2,315,000	2,083,500
PPG Industries, Inc *	Taiwan	Technical assistance for the manufacture and sale of glass	775,000	697,500
RCA International Ltd (Bermuda)	Taiwan	Production of integrated circuits and miniature televisions	5,278,000	19,000,800
RCA International Ltd (Bermuda)	Taiwan	Expansion of electronic component facility	10,578,985	38,084,346
REPCO, Ltd	Honduras	Expansion of wood products facility	441,925	841,890
Ro-Search, Inc **	Jamaica	Manufacture injection molded-sole shoes	160,000	144,000
Ross, Robert	Dominica	Medical university	1,900,000	5,130,000
Signode International, Ltd	India	Manufacture steel strapping for indusinal packaging	990,000	891,000
SmithKline & French International Co	Bangladesh	Pharmaceutical manufacturing facility	290,000	952,000
Southern Wood Piedmont Co ***	Syria	Sale of electric utility crossarms	25,000	22,500
Southern Wood Piedmont Co ***	Syria	Sale of electric utility poles	350,000	315,000
Spadone International***	Egypt	Bias cutting machines	70,130	63,118
Tele-Communications Dominicana, Inc *	Dominican Republic	Telecommunications system	962,000	2,147,400
Tenneco, Inc	Tunisia	Oil exploration and production	65,000,000	58,500,000
TERA Corp ***	Jordan	Software for computer-based management information systems	218,750	196,875
Texas International Co / Phoenix Resources Co	Egypt	Oil exploration and production	19,000,000	17,100,000
Tim-Bar Paper Co	Haiti	Corrugated paper manufacturing facility	1,050,000	2,016,000
Transocean Gulf Oil Co	Taiwan	Lube oil refinery	4,532,998	2,492,998

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**Technical Assistance or Management Services Only
***Letter of Credit/Contractors

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
United States Leasing International, Inc.	Jordan	Equipment leasing	$ 660,000	$ 1,782,000
Universal Foods Corp.	Thailand	Yeast manufacturing facility	170,000	208,080
U.S. Tobacco Co.	Honduras	Expansion of tobacco plantation	3,848,750	5,351,625
U.S. Tobacco Co.	Honduras	Expansion of tobacco processing facility	87,500	101,250
U.S. Tobacco Co.	Honduras	Cigars and cigar boxes	842,000	896,128
World Tableware Corp.	Taiwan	Produce hollow handle knives	1,700,000	1,530,000
Xerox Corporation	Morocco	Market and service Xerox copiers	2,200,000	4,400,000
Zachry, H.B. Co.***	Saudi Arabia	Hospital expansion	5,219,218	4,697,298
Zachry, H.B. Co.***	Saudi Arabia	Reclaimed water line	200,000	180,000
Zachry, H.B. Co. & Dillingham Construction International Inc.***	Sri Lanka	Irrigation canals	31,961,250	20,755,125

*Includes Technical Assistance Services or Rights
**Technical Assistance or Management Services Only
***Letter of Credit Contractors

DEVELOPMENT GRANTS ISSUED IN FY 1982

Organization	Country or Area	Project	Amount of OPIC Assistance
Confederation of Latin American Credit Cooperatives (COLAC)	Panama	Training in management, operation, and marketing for Credicoop cotton gin project in Paraguay	$ 35,000
Control Data Corporation	Jamaica	Manpower assessment of needs for vocational and technical training	$100,000
Fund for Multinational Management Education (FMME)	ASEAN	Training in the acquisition, use and management of U.S. technology for business executives in each of the five ASEAN nations	$125,000 (over 2 yrs.)
Institute for International Development, Inc. (IIDI)	Dominican Republic	Formation of joint ventures between U.S. and Dominican small businesses	$300,000 (over 3 yrs.)
Rural Ventures, Inc.	Jamaica	Feasibility study for project to improve the productivity of small and medium-sized farm enterprises through advanced farming and marketing services	$ 54,356
University of Phoenix	Thailand	Curriculum planning for establishing a business management school	$ 2,000

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OPIC Insured Investors in FY 1983

Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
AM Cable TV Industries, Inc.	Philippines	Manufacture and assemble electronic equipment	$ 895,000	$ 1,342,500
American Can Company	Korea	Expansion and modernization of can factory	11,197,504	20,155,507
American Express Leasing Co.	Indonesia	Equipment leasing	1,550,000	4,185,000
American Motors Corp.	China	Manufacture 4-wheel-drive vehicles	16,000,000	14,400,000
American Standard, Inc.**	Egypt	Manufacture and sell vitreous china, sanitary ware and accessories	4,606,666	2,646,000
AMF, Inc.	China	Manufacture electrical relays	1,142,000	1,027,800
Arkel International, Inc.***	Egypt	Consulting engineers for the construction of a sugar project	498,450	225,000
Armco, Inc.	Indonesia	Manufacture galvanized steel products	960,000	2,592,000
Arvin Industries, Inc.	Taiwan	Expansion of facility making radios, stereos, cable TV accessories	1,515,099	2,745,297
ATSA of California, Inc.***	Egypt	Construction of low cost housing units	15,000	13,500
AT&T International, Inc.***	Egypt	Sale and installation of telephone switching facilities	28,324,733	18,000,000
AT&T International, Inc.***	Saudi Arabia	Sale and installation of microwave system	18,875,000	16,987,500
AT&T International, Inc.***	Korea	Delivery and installation of telephone exchanges	1,465,279	1,318,751
AT&T International, Inc.***	Korea	Installation and sale of telephone equipment	7,325,387	5,392,048
Bank America Holding Co., S.A.	Cameroon	Commercial banking	2,416,000	6,523,200
Bank of America NT&SA	Pakistan	Expansion of Branch Bank	1,523,000	3,200,000
Bank of America NT&SA*	Sudan	Petroleum pipeline	2,000,000,000	125,000,000
BF Goodrich Co.***	Egypt	Sell PVC dry blend used to manufacture drainage pipes	409,050	368,145
Borden, Inc.	Malaysia	Expansion of manufacturing of formaldehyde, resins, and adhesives	701,817	1,894,906
Brewer, C. and Co.	Costa Rica	Cardamom spice plantation	1,967,388	5,311,948
Cargill, Inc.	Thailand	Poultry breeding farm and hatchery	914,185	2,468,300
Caribbean Enterprises, Inc.	Jamaica	Banana plantation	561,800	505,620

* Also received OPIC Financing ** Includes Technical Assistance *** Letter of Credit/Contractors

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Carlson Group, Inc.***	Saudi Arabia	Construction of faculty housing	$29,750,276	$21,420,198
Carnation Company	Thailand	Manufacture non-dairy coffee creamer	3,474,487	4,685,464
Castillo Rio, Inc.	Costa Rica	Cultivate citrus	500,000	1,350,000
Chemical Fabrics Corp.***	Saudi Arabia	Design, supply and erection of stadium roof	3,912,500	2,151,261
Citibank, N.A.	Philippines	Branch Capital	272,000	244,800
Citibank, N.A.	Kenya	Expansion of branch banking facilities	893,000	3,221,100
Citibank, N.A.	Ivory Coast	Expansion of branch banking facilities	2,450,000	7,776,000
Citibank Overseas Investment Corp.	Indonesia	Leasing company	3,780,000	10,206,000
Citicorp	Taiwan	Expand bank capital	301,000	812,700
CM International Corp.***	Saudi Arabia	Supply and installation of hospital plumbing and electrical system	4,430,633	2,938,209
Combustion Engineering Inc.**	China	Production of ceramic fiber	420,000	378,000
Commercial Credit International, Inc.	Israel	Expansion of machinery and equipment leasing	54,900,000	45,600,000
Continental Africa Investors, Inc.	Guinea	Bottle and distribute non-alcoholic beverages	2,500,000	4,500,000
Continental Enterprises, Ltd.	China	Feedmill, poultry, hatcheries	1,000,000	5,400,000
Dynamics Technology, Inc.	Taiwan	Manufacture microwave components	250,000	675,000
EBSCO Industries, Inc.	El Salvador	Manufacture of fishing lures	350,000	150,000
Ecology & Environment International***	Saudi Arabia	Development of environmental quality control program	945,945	681,081
ESI Ltd., N.V.	Taiwan	Manufacture electronic guns for television tubes	560,000	3,024,000
Essex Group, Inc.**	China	Modernize telephone cable manufacturing plant	4,616,000	4,154,400
Far West, Inc.	Costa Rica	Expand fern farm	110,000	99,000
First National Bank of Boston	Cameroon	Commercial banking	907,762	816,986
First National Bank of Boston	Dominican Republic	Expansion of Commercial Bank	405,000	1,215,000
Ford Motor Co.**	Turkey	Licensing and technical assistance for vehicle and component manufacture	11,100,000	9,990,000
Foxboro Co.	China	Manufacture industrial process control instruments	4,900,000	6,615,000
Foxboro Co.	Saudi Arabia	Support services for process control systems	400,075	385,787
FSI Finance Services U.S., Inc.	Jamaica	Tourist hotel	4,000,000	4,032,000
General Electric Appliance Components Ltd.	Malaysia	Manufacture appliance controls	6,000,000	12,000,000
General Electric Co.***	Saudi Arabia	Gas turbine power project	24,456,721	17,608,839
General Electric Co.***	Saudi Arabia	Supply and installation of gas turbine electrical power plants	5,782,552	3,462,288

* Also received OPIC Financing   ** Includes Technical Assistance   *** Letter of Credit/Contractors

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
General Electronic	Malaysia	Manufacture audio products and components	$ 8,300,000	$ 7,470,000
General Foods Corp.	Philippines	Expansion of manufacturing of syrup gelatin and powdered beverages	950,000	2,565,000
General Motors Corp.	Egypt	Manufacture commercial vehicles	6,262,000	16,907,400
Gillette Co.	Philippines	Manufacture plastic pen parts	250,000	675,000
Gillette Co.	China	Manufacture razors, razor blades	1,400,000	3,780,000
Gillette Co.	Malaysia	Manufacture writing instruments	517,000	1,395,900
GTE Corp.	Dominican Republic	Expansion of telephone service	25,655,152	25,655,152
Gulf & Western Industries, Inc.	Haiti	Manufacture men's and women's jeans	1,400,000	1,251,000
Hanson, R.A. Co., Inc.***	Egypt	Sale and assembly of canal forming equipment	390,250	140,490
Harris Corp.	Malaysia	Expansion of manufacture of integrated circuits	11,100,000	11,220,000
Harris Corp. (Bermuda)	Sri Lanka	Semiconductor manufacturing and assembly facility	20,000,000	20,000,000
Hershey International Ltd.	Philippines	Production of cocoa and confectionary products	1,275,499	2,233,539
Highmark/Americas Inc.*	Jamaica	Manufacture and sell confections	72,000	64,800
Holiday Inns, Inc.	Brazil	Construct and operate hotel	2,690,000	3,922,200
Holzer, E., Inc.***	Bangladesh	Sale and installation of poultry equipment	44,394	39,995
Howard-Harbert-Jones***	Egypt	Modification and expansion of water filtration plant	16,666,000	15,000,000
International Standard Electric Corp.	Taiwan	Manufacture floppy discs, printers and terminals	3,000,000	8,100,000
ITT Telecom Products Corp.***	Honduras	Supply and installation of telephone exchange	2,826,040	4,640,365
Judy Bond, Inc.	Haiti	Assemble women's blouses	300,000	270,000
Kowin Development Corp.	China	Establish and operate a hotel	10,000,000	20,000,000
Mangood Corp.	India	Manufacture welding equipment	85,000	45,000
Manta International	Saudi Arabia	Industrial and commercial painting and maintenance services	250,000	675,000
Meyhall Chemical AG	Pakistan	Expansion of guar gum manufacturing facility	566,180	630,583
Mueller Co.***	Egypt	Supply and delivery of tapping and drilling machinery	19,245	17,321
Mueller Co.***	Bangladesh	Sale and delivery of water control devices and materials	74,000	66,600
New Ag Inc., et al.	Egypt	Establish poultry operation	119,443	322,496
Nike, Inc.	Malaysia	Manufacture rubber sole units	4,67 ,811	2,025,000

* Also received OPIC Financing ** Includes Technical Assistance *** Letter of Credit/Contractors

Company	*Country or Area*	*Project*	*Total Investment Insured This Investor*	*Largest Single Maximum Coverage*
Nip, Raymond Lee	Thailand	Expansion of a facility to manufacture chlorine and caustic soda	$ 60,000	$ 120,000
Oak Technology Inc.	Taiwan	Glass fabric weaving facility	13,121,000	11,808,900
Occidental Exploration and Production Co.	Tunisia	Oil and gas exploration and development	104,444,444	94,000,000
Occidental Exploration and Production Co.	Pakistan	Oil and gas exploration and development	111,111,111	100,000,000
Otis Elevator Co.**	Philippines	Manufacture elevators, escalators and moving sidewalks	2,024,309	2,465,634
Petro Belize, Ltd.	Belize	Oil and gas exploration and development	55,555,555	50,000,000
Quintana Somalia, Ltd.	Somalia	Oil and gas exploration and development	67,777,778	61,000,000
Refreshment Sales, Inc.	Korea	Expansion of existing juice factory	1,947,525	5,258,300
Schaffer, F.C. and Associates, Inc.***	Haiti	Management and technical assistance services for sugar factory	2,788,500	729,000
Seaboard Corp.	Nigeria	Manufacture polypropylene bags	1,539,200	4,155,840
Security Pacific National Bank	Korea	Establishment of a Branch Bank	4,400,000	6,000,000
Sheraton International Inc.	Tunisia	Hotel expansion	1,300,000	3,510,000
Southern Wood Piedmont Co.***	Syria	Supply of chemically treated electric utility poles	548,975	494,078
St. Charles Laboratory Furniture***	Saudi Arabia	Design and manufacture of lab equipment and furniture	1,580,000	1,422,000
Stewart, R. Wayne, et al.	Costa Rica	Citrus and cattle farm	300,000	360,000
Systems and Applied Sciences Corp.***	China	Sale and installation of earth satellite ground station	473,000	425,700
Tabor Corp.	Sri Lanka	Expansion of pharmaceutical facility	129,612	349,952
Tera Corp.***	Saudi Arabia	Computerized data retrieval system	20,000	18,000
Thunderbird Industries, Inc.	India	Manufacture aluminum foil	450,000	1,215,000
Travenol Laboratories, S.A.	Yugoslavia	Manufacture medical equipment	12,112,000	13,000,000
Trophy World, Inc.	Haiti	Manufacture and assemble trophy bases, plaques	285,000	238,500
Union Carbide Corp.	Sudan	Expansion of dry cell battery plant	2,890,440	7,800,000
Union Geothermal of Indonesia, Ltd.	Indonesia	Geothermal Exploration and Development	155,800,000	50,000,000
Universal Foods Corp.	Thailand	Manufacture of yeast	146,957	222,262
Volt Information Sciences, Inc.***	Uruguay	Publish telephone directories	3,598,333	3,000,000
Wheeler, John A.	Sri Lanka	Cardamom farm	40,000	36,000

* Also received OPIC Financing ** Includes Technical Assistance *** Letter of Credit/Contractors

OPIC INSURED INVESTORS IN FISCAL 1984

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
A E Staley Manufacturing Co	India	Soybean processing facility	$ 5 000 000	$ 4 500 000
AVX Ceramics	El Salvador	Manufacture electronic components	6 100 000	3 939 900
Abbott Laboratories	Philippines	Manufacture pharmaceuticals	437 000	1 179 000
Abbott Laboratories	Philippines	Manufacture pharmaceuticals	191 000	515 700
Abbott Laboratories	Philippines	Property lease for pharmaceutical firm	57 000	307 800
Agro Associates Inc	Pakistan	Poultry breeding & hatchery operations	165 394	148 855
Agua Fria Mill Tailings Ltd	Honduras	Processing of gold & silver	600 000	540 000
American Cyanamid Co	Korea	Manufacture specialty chemicals & pharmaceuticals	2 451 000	3 676 500
American Cyanamid Co	Korea	Sutures assembly facility	3 100 000	1 710 000
American Express Leasing Corp	Brazil	Leasing of an oil rig	70 000 000	75 000 000
American Standard Inc	Guatemala	Manufacture vitreous china	645 176	1 161 316
American Standard Inc	Indonesia	Manufacture vitreous china	2 975 000	2 677 500
Applied Magnetics Corp	Korea	Manufacture magnetic recording heads	290 000	783 000
Applied Magnetics Corp	Korea	Manufacture magnetic recording heads	4 045 000	10 921 500
Baby Togs Inc	Philippines	Manufacture infant wear	2 500 000	2 250 000
Barnwell Israel Oil & Gas Limited Partnership	Israel	Oil & gas exploration development & production	111 111 111	100 000 000
Bob s Candies Inc	Jamaica	Manufacture of candy	600 000	540 000
Borden Inc	Costa Rica	Manufacture dairy products	1 413 659	1 798 293
Brown & Root Inc	Sri Lanka	Construction of airport runway	510 000	459 000
C Braxton Moncure	Jamaica	Business conference center	1 296 746	500 000
Canis E H et al	Haiti	Distribution & installation of electronic electrical wire	950 000	675 000
Caribe Crown Inc	Haiti	Production of mangoes & hot peppers	195 400	175 860
Carnation Co	Korea	Manufacture specialty animal feeds	765 000	2 065 500
Citibank Overseas Investment Corp	Philippines	Finance company	41 457	111 934
Citibank N A	Korea	Branch bank expansion	1 579 000	4 263 300
Citibank N A	Haiti	Branch bank expansion	100 000	300 000
Citibank N A	Korea	Branch bank expansion	1 798 228	4 693 216
Citibank N A	Jamaica	Branch bank expansion	1 380 000	3 726 000
Citibank N A	Philippines	Bank expansion	4 277 684	11 549 747
Citibank N A	Turkey	Branch bank expansion	1 320 000	7 128 000
Citibank N A	El Salvador	Branch bank expansion	1 524 800	152 640
Citibank N A	Zaire	Commercial bank expansion	2 005 200	5 414 040
Citibank N A	Jordan	Branch bank expansion	8 202 878	16 406 000

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Citibank, N.A.	Chile	Branch bank expansion	$ 6,930,000	$ 18,711,000
Citibank, N.A.	Uruguay	Branch bank expansion	1,429,000	4,000,000
Citibank, N.A.	Kenya	Branch bank expansion	1,028,812	2,777,793
Citibank, N.A.	Philippines	Branch bank expansion	1,349,000	1,214,000
Clayton Dewandre Holdings, Ltd.	India	Manufacture railway signalling equipment	1,096,000	986,400
Compania Baltima, S.A. & World Management Consultants, Inc.	Haiti	Beverage distribution	2,000,080	1,620,072
Continental Milling Corp.	Zaire	Expansion of flour mill operation	1,491,383	4,026,734
Cosecha de Oro	Costa Rica	Passion fruit & cocoa farm	355,000	750,000
Dana Corp.	Indonesia	Manufacture & assemble axles & drive shafts	1,560,000	1,404,000
Delmed, Inc.	El Salvador	Assemble plastic medical products	2,000,000	1,500,000
Dixilyn-Field International Drilling Co., S.A.	India	Oil and gas drilling	3,200,000	3,200,000
E.P. Supe Gaulding Import & Export	Dominican Republic	Manufacture printing inks	350,000	270,000
Edward Broch	Costa Rica	Grow coconuts, pejibayos, oranges & teak/mahogany	50,000	45,000
Ellicott Machine Corporation International	Egypt	Supply dredges	269,500	110,250
Elliot, Thomas and Winnick, Martin	Haiti	Mink, rabbit and leather garments	408,206	817,385
Firestone Tire & Rubber Co.	Liberia	Latex crumb rubber processing facility	2,750,000	2,475,000
First National Bank of Boston	Turkey	Establishment of branch banks	9,000,000	24,300,000
Foote Mineral Co.	Chile	Production of lithium carbonate	14,000,000	12,600,000
General Electric Co.	Turkey	Lamp & glass bulb production	432,020	388,818
General Electric Co.	Saudi Arabia	Install combustion turbine	2,464,512	2,218,061
General Electric Co.	Saudi Arabia	Supply & install gas power substation	1,866,711	1,120,027
General Electric Co.	Brazil	Manufacture electrical conductors	471,108	423,997
General Electric Co.	Egypt	Supply turbine	2,084,912	1,876,420
General Foods Corp.	Korea	Manufacture of food products	4,456,239	12,031,845
Gillette Co.	Indonesia	Manufacture razors, blades & shaving preparations	530,000	648,720
Gillette Co.	Philippines	Manufacture blades, razors, toiletries & writing instruments	450,000	1,215,000
Gillette Co.	Philippines	Manufacture blades, razors, toiletries & writing instruments	800,000	2,160,000
Gillette Co.	Jamaica	Toiletries manufacturing facility	768,000	2,073,600
Gillette Co.	Thailand	Manufacture razors, writing instruments, etc.	3,803,000	10,268,100

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Gillette Co	Malaysia	Manufacture ballpoint pens & refills	$ 2,000,000	$ 2,641,500
Gillette Co	Philippines	Manufacture razors, blades, toiletries & writing instruments	2,000,000	5,400,000
HARSCO Corp	Indonesia	Processing of metallic bearing materials	841,790	1,331,300
Hanawalt, Jack F	Costa Rica	Citrus farm	50,000	45,000
Harbert Howard Cos	Egypt	Design & install grain silos	79,278,470	4,000,000
Harris Corp	Malayisa	Test integrated circuits	18,389,000	17,400,960
Honeywell, Inc	Thailand	Assemble integrated circuits	2,500,000	2,700,000
Howard Harbert Sadelmi	Egypt	Rehabilitation of sewage pumping stations	8,555,555	7,700,000
Ingle Industries, Inc	Grenada	Manufacture wooden toys & furniture	350,000	1,050,000
Int'l Development Institute Assoc	Nepal	Software production facility	300,000	270,000
International Minerals & Chemical Corp	Brazil	Production & marketing of fertilizer	13,000,000	35,100,000
International Nabisco Brands, Inc	Turkey	Process & distribute peanuts & other nut products	1,260,000	3,780,000
International Paper Co	Korea	Manufacture & market liquid packaging cartons	4,000,000	10,800,000
International Paper Co	Taiwan	Manufacture & market liquid packaging cartons	1,650,000	4,455,000
J. Rose & Assoc /National Diversified Properties	Belize	Oil & gas exploration, development & production	4,166,667	3,750,000
Kimberly Clark International, S.A	Honduras	Manufacture disposable hygiene products	112,500	304,000
Kimberly Clark Corp	Indonesia	Manufacture paper	2,550,000	4,590,000
La Barge, Inc	Haiti	Manufacture electrical & electronic components	4,220,000	3,600,000
Marsell, J.S., et al	Costa Rica	Grow ferns	250,000	153,000
Morgan Guaranty International Finance Corp	Portugal	Establishment of an investment company	1,070,000	963,000
Motorola Asia, Ltd	Korea	Expansion of semiconductor facility	7,150,450	10,000,000
Nello L. Teer Co	Dominica	Road reconstruction	3,000,000	2,000,000
North Central Oil Corp. & Newmont Oil Co	Thailand	Oil & gas exploration, development & production	27,777,778	25,000,000
Omega Industries, S.A	Haiti	Expansion of leather-tanning facility	100,000	160,000

Company	Country or Area	Project	Total Investment Insured This Investor	Largest Single Maximum Coverage
Owens-Illinois, Inc.	Indonesia	Manufacture disposable plastic syringes	$ 7.272.000	$ 4.528.000
Page, Robert E.	Costa Rica	Citrus farm	1.500.000	1.035.000
Paul den Haene	Belize	Construct & operate tourist hotel	1.100.000	1.035.000
Pennzoil Co. & Mr. Rutherford	Tunisia	Oil & gas exploration, development & production	111.111.111	100.000.000
Pennzoil Co.	China	Oil & gas exploration, development & production	166.666.666	75.000.000
R. F. Varley International, Inc.	India	Provide offshore directional drilling services & training	25.000	22.500
Resort Development, Inc.	Jamaica	Resort facility	233.643	525.697
Roepke, Gordon R.	Costa Rica	Grow rice, beans & raise cattle	200.000	180.000
Salvador, B. J.	St. Kitts-Nevis	Commercial fishing	286.000	772.200
Schering Overseas, Ltd.	Korea	Manufacture & market pharmaceuticals/chemicals	3.155.754	5.680.357
Searle, G.D. & Co.	Pakistan	Pharmaceutical expansion	290.000	783.000
Signode International, Ltd.	Kenya	Manufacture steel strapping systems	57.692	103.846
Slater Electric, Inc.	Jamaica	Manufacture circuit boards, relays, & electronic subassemblies	370.000	333.000
Smithkline Beckman Corp.	Korea	Pharmaceuticals manufacturing facility	3.100.000	2.790.000
Spencer Turbine Co.	Saudi Arabia	Provide dental equipment	10.604	9.544
Squibb International, Inc.	Pakistan	Establishment of pharmaceutical plant	1.635.000	3.139.221
St. Joe International Corp.	Chile	Gold/silver exploration, development & production	220.000.000	90.000.000
Standex International Corp.	Haiti	Assemble & test electronic filters	750.000	675.000
Stapling Machines Co.	Turkey	Lease equipment to manufacture wirebound boxes	121.124	109.912
Tera Corp.	Saudi Arabia	Sell & install computerized document storage system	247.356	222.620
Texaco, Inc.	China	Oil & gas exploration, development & production	111.111.111	50.000.000
Uniroyal, Inc.	Turkey	Expansion of tire manufacturing facility	922.667	1.660.800
Uniroyal, Inc.	Taiwan	Manufacture antizonants, antioxidants, intermediates & accelerators for rubber industry	3.982.880	7.169.184
Universal Foods Corp.	Jordan	Operate yeast manufacturing facility	480.000	324.000
Universal Foods Corp.	Chile	Manufacture yeast	555.000	500.000
Universal Foods Corp.	Chile	Manufacture yeast	555.000	500.000
Warner-Lambert Co., A.G.	Thailand	Manufacture confectionary products	934.783	2.523.914

FY 85

OPIC Insured Investors in Fiscal 1985

Investor	Country	Project	Insured Investment	Largest Single Cover
Agrotex Products, Inc	Guatemala	Cold crop vegetables	$ 27,000	$ 145,800
American Express Leasing	Taiwan	Leasing company	1,125,000	3,375,000
American Standard, Inc	Korea	Railway signalling equipment	720,000	720,000
American Standard, Inc	Philippines	Plumbing fixtures	1,710,000	1,710,000
American Standard, Inc	India	Railway brakes	453,600	453,600
American Standard, Inc	Indonesia	Plumbing fixtures	3,375,000	900,000
American Standard, inc.	Korea	Plumbing fixtures	2,287,025	6,861,075
Argosy Energy International	Colombia	Oil & gas	20,000,000	20,000,000
Armco, Inc.	Indonesia	Galvanized steel products	2,344,500	2,474,550
Asec International, Inc	Saudi Arabia	Computer system	792,774	792,774
Asec International, Inc	Saudi Arabia	Facility support system	300,000	300,000
AT&T International	Korea	Optical fiber	1,125,000	1,125,000
AT&T International	Korea	Optical fiber	2,853,000	3,150,000
Autodynamics, Inc	Pakistan	Digital training systems	599,793	599,793
BankAmerica Holding Company S.A.	Nigeria	Banking	3,138,721	3,183,721
BDM Corporation	Egypt	Identity card system	1,350,000	1,350,000
Bechtel International, Inc	India	Gas turbine plant	900,000	900,000
Besser Company	Egypt	Concrete block plants	1,709,500	1,709,500
Big Creek Enterprises, Inc.	Belize	Remove & export pine stumps	301,970	301,970
Black & Decker Corporation	Singapore	Electric irons & scales	1,250,000	6,750,000
Borden, Inc.	Chile	Pasta products	2,054,700	10,273,500
Boston Overseas Financial Corporation	Nigeria	Banking	851,101	851,101
Brink's, inc.	Pakistan	Armored car service	103,370	103,370
Budnik, Norbert J., et al.	Haiti	Mining	2,160,000	5,400,000
Cargill, Inc.	Indonesia	Animal feedmill	2,862,000	3,784,000
Cargill, Inc.	Pakistan	Seed production	540,900	1,082,700
Cargill, Inc.	Philippines	Seed production	450,000	286,000
Cargill, Inc.	Thailand	Tapioca pelletizing	3,150,000	7,920,000
Cargill, Inc.	Thailand	Poultry farm	4,320,000	12,137,233
Cargill, Inc.	Thailand	Seed production	571,090	1,183,090
Caribbean Beef Industries	Jamaica	Beef livestock	1,108,800	2,127,150
Caribbean Beef Industries	Jamaica	Beef livestock	54,000	54,000
Chase Manhattan Bank, N.A.	Thailand	Banking	2,970,000	2,970,000
Citibank Overseas Investment Corporation	Chile	Finance company	7,020,000	7,020,000
Citibank Overseas Investment Corporation	Korea	Leasing company	1,334,982	4,004,944
Citibank Overseas Investment Corporation	Chile	Leasing company	405,000	405,000
Citibank Overseas Investment Corporation	Chile	Banking	2,700,000	2,700,000
Citibank, N.A.	Chile	Banking	37,800,000	37,800,000

Investor	Country	Project	Insured Investment	Largest Single Cover
Citibank, N.A.	Ecuador	Banking	$ 792,876	$ 2,378,628
Citibank, N.A.	Korea	Banking	2,322,000	2,580,000
Citibank, N.A.	Morocco	Banking	2,229,959	6,689,877
Citibank, N.A.	Pakistan	Banking	642,070	642,070
Citicorp International Trading Company	Chile	Trading company	225,000	675,000
Columbian International Chemicals	Philippines	Carbon black	2,038,500	2,038,500
Commercial Credit Company	Israel	Leasing company	89,370,000	100,000,000
Dana Corporation	Indonesia	Axles and drive shafts	517,500	517,500
Data General Corporation	Philippines	Circuit boards	1,575,000	1,575,000
Dillingham Pakistan, Ltd	Pakistan	Cofferdam & ancillary works	3,000,000	5,000,000
E. R. Squibb & Sons, Inc.	China	Pharmaceuticals	900,000	2,700,000
E. R. Squibb & Sons, Inc.	Korea	Pharmaceuticals	8,061,300	13,731,300
E. R. Squibb & Sons, Inc.	Taiwan	Pharmaceuticals	4,005,000	8,865,000
E.I.L. Export International, Inc.	Egypt	Electrical testing vans	23,587	23,587
Ellicott Machine Corporation International	Egypt	Dredges	99,000	99,000
Excellent Products Corporation, S.A.	Ecuador	Shrimp hatchery	675,000	2,025,000
F. C. Schaffer & Associates	Haiti	Sugar refining	1,215,000	1,215,000
Far West, Inc.	Costa Rica	Leather-leaf fern farm	225,000	225,000
First National Bank of Boston	Chile	Banking	19,800,000	35,800,000
First National Bank of Boston	Cameroon	Banking	663,002	1,989,006
Fischbach & Moore International Corporation	Egypt	Pump station	11,612,492	9,612,492
FMC Corporation	Indonesia	Oil services	1,657,800	4,973,400
FMC Corporation	Indonesia	Oil services	560,000	560,000
Ford Motor Company	Turkey	Vehicles and parts	10,800,000	10,800,000
Foxboro Company	Korea	Control equipment	576,000	1,728,000
Front St. Overseas Funding	Saudi Arabia	Leasing company	442,800	1,328,400
Frutas Tropicales I. Ltd.	Costa Rica	Tropical fruit plantation	472,500	525,000
General Electric Company	Pakistan	Power station	6,826,833	6,826,833
General Electric Company	Pakistan	Power station	6,753,546	6,753,546
General Electric Company	Korea	X-ray equipment	4,455,000	4,455,000
General Foods Corporation	China	Starch & dextrin	1,440,000	1,440,000
General Ionex Corporation	Saudi Arabia	Ion accelerator system	285,300	285,300
Gilley & Associates, Inc.	India	Petroleum consulting	13,500	13,500
Griffin & Brand of McAllen	El Salvador	Vegetables	675,000	675,000
GTE International, Inc.	Yugoslavia	Telephone switching equipment	1,385,100	2,770,000
Hamco, Ltd.	Saudi Arabia	Contractual services	360,000	1,660,000
Harsco Corporation	Indonesia	Scrap metal	2,161,153	2,202,120
Holiday Inns (Andina), Inc.	Chile	Hotel	3,561,232	16,149,532

Investor	Country	Project	Insured Investment	Largest Single Cover
Integro Investors, Inc.	Egypt	Poultry breeding	$ 360,000	$ 1,080,000
Intel Corporation	Philippines	Integrated circuits	9,000,000	9,000,000
International Bechtel, Inc.	China	Engineering consulting firm	1,350,000	1,350,000
International Nabisco Brands	China	Biscuits	4,050,000	12,150,000
International Tank Terminals	Bangladesh	Edible oils	205,200	205,200
Ionics, Inc.	Saudi Arabia	Water treatment	3,690,000	3,690,000
ITEC International, Inc.	Pakistan	Telephone switching equipment	113,854	113,854
Jamaica Hotel Properties, Inc.	Jamaica	Hotel	4,243,500	6,243,500
JBM Associates, et al.	Dominican Republic	Furniture	127,440	277,920
Kellwood Asia, Ltd.	Sri Lanka	Apparel	8,124,845	4,675,020
Kellwood Asia, Ltd.	Sri Lanka	Apparel	1,500,000	1,500,000
Kimberly-Clark Corporation	Brazil	Disposable paper products	4,000,000	8,000,000
Kimberly-Clark Corporation	Malaysia	Sanitary paper products	222,300	445,000
Kimberly-Clark Corporation	Panama	Sanitary paper products	834,000	1,800,000
Kohler Company	Egypt	Railroad car generators	393,054	393,054
MacLean Grove & Company, Inc.	Egypt	Sewer/drainage system	7,000,000	7,000,000
Manuel Blanco, et al.	Costa Rica	Lubricating oils	54,000	100,000
Marcus Trading International, Inc.	Pakistan	Date processing	97,999	293,997
Master, Joseph, et al.	Costa Rica	Leather-leaf fern farm	54,000	162,000
Minnkota Systems, Ltd.	Bahamas	Housing construction	1,800,000	4,300,000
Mottonville, N.V.	Uruguay	Cement plant	1,350,000	1,350,000
Motorola, Inc.	Israel	Electronic communication systems	4,500,000	12,150,000
Nylint Corporation	Korea	Toys	810,000	1,260,000
Occidental International Exploration & Production Company	Colombia	Oil & gas	100,000,000	100,000,000
Occidental International Exploration & Production Company	Egypt	Oil & gas	100,000,000	100,000,000
Occidental International Exploration & Production Company	Madagascar	Oil & gas	100,000,000	100,000,000
Occidental Petroleum Corporation	Pakistan	Oil & gas	100,000,000	100,000,000
Otis Elevator Company	Philippines	Escalators and elevators	3,960,000	3,960,000
Otis Elevator Company	Taiwan	Escalators and elevators	727,457	2,182,370
Otis Elevator Company	China	Escalators and elevators	1,800,000	4,500,000
Otis Elevator Company	Taiwan	Escalators and elevators	2,160,000	1,000,000
Pacific Energy & Mining Company	Pakistan	Mining	1,242,000	2,070,000
Pacific Gas Supply Corporation	Bangladesh	Bali valves	12,590	12,590
Pacific Gas Supply Corporation	Bangladesh	Ball valves	8,598	8,598
Pacific Gas Supply Corporation	Bangladesh	Polyethylene pipe & fittings	36,522	36,522
Parke, Davis & Company	Pakistan	Pharmaceuticals	630,000	1,890,000
Parker, William F.	Bahamas	Papayas	614,665	1,229,330

Investor	Country	Project	Insured Investment	Largest Single Cover
Parsons Brinckerhoff International	Turkey	Istanbul metro system	$ 549,438	$ 549,438
Parsons Brinckerhoff International	Turkey	Istanbul metro system	329,664	329,664
Parsons Brinckerhoff International	Turkey	Istanbul metro system	658,000	658,000
Phelps Dodge Corporation	El Salvador	Telephone cables	570,750	570,750
Postal, Robert, et al	Haiti	Apparel	225,000	450,000
R.D. Products (Dominican)	Dominican Republic	Fruits and vegetables	382,500	765,000
Rahco Disc. Inc	Syria	Irrigation equipment	2,000,982	2,000,982
Ramada Pacific, Ltd	Sri Lanka	Hotel	480,600	480,600
Reliant Overseas Drilling Company	Colombia	Leasing of oil drilling rigs	1,507,500	1,728,000
Rio Norte, Ltd	Costa Rica	Tropical fruit plantation	450,000	1,350,000
Schakel, Karl, et al.	Jamaica	Fruits and vegetables	360,000	374,625
Select Seedlings, Inc	Jamaica	Seedling production	58,500	117,000
Slater Electric, Inc	Jamaica	Electric assembly	1,287,000	1,287,000
SmithKline Beckman Corporation	China	Pharmaceuticals	3,960,000	3,960,000
SmithKline Beckman Corporation	Korea	Pharmaceuticals	11,089,125	6,785,125
Sneed-McBride International, Inc	Jordan	Irrigation equipment	67,500	67,500
Solid State Scientific, Inc.	China	Semiconductors	438,300	438,300
Solid State Scientific, Inc.	China	Semiconductors	450,000	450,000
Springfield Oil Services, Inc.	Tunisia	Oil & gas	50,000,000	50,000,000
Squirt & Company	Ecuador	Fruit juices	450,000	500,000
St. Joe Minerals	Chile	Mining	90,000,000	90,000,000
Sterling Products International	India	Pharmaceuticals	588,456	1,405,368
Sterling Products International	Korea	Pharmaceuticals	2,975,398	4,313,855
Stewart, R. H. "Dick", et al	Costa Rica	Leather-leaf fern farm	861,617	861,617
Stirling Technology, Inc.	India	Engines	28,125	28,125
Systems & Applied Sciences Corporation	China	Ground station system	106,425	106,425
Systems & Applied Sciences Corporation	China	Ground station system	744,975	744,975
Telemar Data Systems Corporation	Jamaica	Data conversion	225,000	500,000
Tera International, Ltd.	Saudi Arabia	Automated document system	630,288	630,288
The Gillette Company	India	Razor blades	880,632	2,641,896
The Signal Companies, Inc.	Chile	Methanol plant	100,000,000	100,000,000
Torrent Corporation	Haiti	Surgical sponges/applicators	442,912	465,412
Tropicana Investment	Jamaica	Ethanol alcohol	2,826,691	6,299,647
Universal Leaf Tobacco	Malawi	Tobacco processing	859,576	572,008
White Shield Greece Oil Corporation	Greece	Oil & gas	20,000,000	20,000,000
Yaque Agricultural Enterprises	Dominican Republic	Cotton processing	1,217,160	2,434,320
Zachry/Dillingham	Sri Lanka	Irrigation canals	12,800,000	12,800,000

Question 5. Also, you mentioned in your testimony that OPIC does almost half of its business in the low income countries, defined as those with per capita incomes below $896 per annum. The World Bank defines the lowest income countries of the world as those with per capita incomes of $400 or less. Please provide for the record a chart indicating how much business OPIC does in those countries.

Answer. Since FY 1981, OPIC has issued commitments totalling $56.9 million for 15 projects located in countries with a per capita income of $400 or less in 1983 dollars. These projects are as follows:

PROJECTS SPONSORED SINCE 1981 IN LLDC's WITH 1982 GNP PER CAPITA INCOME OF $400 OR LESS IN 1983 DOLLARS

[Dollar amounts in thousands]

	Amount	Country
Project:		
Allied Circuits	$350	Haiti.
General Tyre	3,500	Pakistan.
Kilamco	40,000	Tanzania.
Cuirs Hawtan	300	Haiti.
Furs of Haiti	662	Haiti.
Haitian Fibers	300	Haiti.
Interra	350	India.
Allied Tractors	1,750	Pakistan.
Wear Well	450	India.
Tim-Bar	1,250	Haiti.
Ghana Tuna	480	Ghana.
Designatronics	520	Haiti.
Imperial Industries	300	Haiti.
Systems & Applied Sciences	4,700	China.
Pioneer Tuna	2,000	Ghana.
Total	56,912	

In addition, OPIC has administered a local currency lending program in Pakistan since 1975 under a delegation of authority from AID. Loans committed under this program since 1975 amount to 296 million rupees, or approximately $24 million, at an average exchange rate. This represents 12 projects.

WEDNESDAY APRIL 9, 1986.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

WITNESS

DAVID A. SANTOS, DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. OBEY. Next we will turn to the fiscal year 1987 request of $10 million for American Schools and Hospitals Abroad. The fiscal year 1987 request is $23.5 million below the fiscal year 1986 post-sequestration level of $33.5 million.

We have with us this afternoon Mr. David Santos, Director of the Office of American Schools and Hospitals Abroad.

Mr. Santos, why don't you tell us whatever you want to tell us.

Mr. SANTOS. Thank you, Mr. Chairman.

American-sponsored schools and hospitals overseas that we assist are presently educating 135,000 students from more than 100 countries and are providing medical services to more than 3 million people each year. Our assistance is highly leveraged and, we believe, cost effective because user fees and private contributions exceed ASHA grants.

The 69 institutions we have assisted in the past five years raised $236 million last year from tuition and fees and $79 million from private contributions in the United States and overseas. The annual cost of educating students at these institutions ranges from $1,000 to $10,000, far less than comparable education in the United States.

Most of our grants are long-term investments. They include classrooms, laboratories, libraries, dormitories, and equipment, things that enable these institutions to provide a higher quality of education and medical services to more people.

The assistance that we provide is used expeditiously. The $120 million which we have granted over the past five years has been mostly expended. Only $21.5 million remains in the pipeline, and most of that is from 1985 grants.

Of most importance, our assistance strengthens institutions that share American values, such as free inquiry, private initiative and innovative approaches to problem solving. They train a cadre of foreign citizens who can communicate, share values and work with Americans in business, government, the sciences, and other mutually beneficial endeavors.

I will just mention a few major accomplishments during the 1980s. These include saving Cuttington University College in Liberia, an institution serving West Africa, from physical obsolescence by providing new classrooms and laboratories and a variety of equipment and also renovating many of its facilities; helping six hospitals in Africa to expand and improve their primary and secondary medical services and their nursing schools, institutions in Botswana, Cameroon, Malawi, Rwanda, Zaire and Zambia.

We have assisted six institutions in the Philippines with new library, classroom and laboratory facilities and equipment, helping to educate students in Luzon, Mindanao, Negros Oriental, and other areas of the Republic of the Philippines. Many of these students, and in fact many of these institutions, participated with NAMFREL, the National Movement for Free Elections, to try to ensure accurate voting lists and honest ballot counting in the recent election.

We provided assistance critical to the survival of the American University of Beirut. Almost 5,000 students are presently enrolled at the university despite the difficulties of functioning in Lebanon, including the kidnapping and continued holding of four faculty members and the murder of the president two years ago.

Since 1980, and including the grants we propose to make this year, $35 million will have been invested in 14 institutions presently serving 14,000 students in the Caribbean Basin. This includes major expansion of institutions serving Central America: the Panamerican Agricultural School in Honduras, the University of the Valley of Guatemala, and the Francisco Marroquin University, which will be moving to a new campus in 1987.

The attachment to our statement shows how the $120 million which has been appropriated during the period 1981 to 1985 has been granted by country, institution and fiscal year.

This fiscal year we had 59 applicants requesting over $83 million. We are planning to make grants to 41 of these applicants, totalling the Gramm-Rudman-Hollings adjusted amount of $33.5 million. As you noted, our request for fiscal year 1986 is $10 million. Obviously, the appropriation of that amount will necessitate fewer and smaller grants and greater self-reliance by American-sponsored institutions overseas.

I will be pleased to answer any questions you have, Mr. Chairman.

[The prepared statement of Mr. Santos follows:]

STATEMENT OF
DAVID A. SANTOS
DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD
BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE
AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
HOUSE COMMITTEE ON APPROPRIATIONS

APRIL 9, 1986

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to appear before this Subcommittee on behalf of the Agency for International Development's American Schools and Hospitals Abroad Program (ASHA).

The ability of the United States to achieve its foreign policy goals depends on the extent to which others share America's commitment to such values as private initiative, free inquiry and innovative approaches to problem solving.

ASHA assistance helps private, American-sponsored institutions educate a cadre of foreign citizens who can communicate, share values and work with Americans in business, government, the sciences and other mutually beneficial endeavors.

ASHA grants help selected institutions to build or renovate classrooms, laboratory, library and dormitory facilities, to purchase scientific, teaching and medical equipment and, in a few cases, to meet the costs of operating educational and medical programs. ASHA-supported institutions train future leaders and professionals in a wide variety of disciplines including agriculture, economics, business and public administration, medicine, nursing, public health, education, engineering and the arts and sciences.

In the last five fiscal years (1981-1985), 69 institutions have received ASHA assistance. These institutions

- educate 135,000 students from more than 100 countries annually,
- provide medical services to more than three million people each year,
- operate facilities worth more than $2 billion in replacement costs, and
- raised $236 million from user fees and $79 million from private contributions last year.

A principal characteristic of ASHA-assisted institutions is the effective adaptation of American techniques to other cultures. This is accomplished through close continuing relationships between American citizens and those of other countries.

Since 1979, when program criteria were first published and a competitive evaluation process was instituted, assistance to institutions in Africa, Asia and Latin America has more than doubled. In the case of Africa, the increase has been more than 15-fold. The following table compares the seven-year periods prior to and beginning with 1979.

DISTRIBUTION OF ASHA FUNDS BY REGION*
COMPARISON OF PERIODS BEFORE AND AFTER MANAGEMENT IMPROVEMENTS
(In Thousands of U.S. Dollars)

REGION	GRANTED 1972-1978	% OF TOTAL	GRANTED 1979-1985	% OF TOTAL	$ CHANGE
Africa	$ 1,125	1%	$18,925	11%	+1,582%
Asia	14,855	10	28,443	17	+ 92
Latin America	26,139	18	37,574	22	+ 44
SUBTOTAL	$42,119	29%	$84,942	50%	+ 102
Europe	$ 23,910	16%	$11,875	7%	- 50
Near East	79,622	55	72,183	43	- 9
SUBTOTAL	$103,532	71%	$84,058	50%	- 19
TOTAL	$145,651	100%	$169,000	100%	+ 26

* Based on ASHA dollar appropriations excluding deobligations and funds allocated for program support in the 1970s. Does not include grants of local currency, ESF or other funds.

ASHA-assisted institutions carry out projects expeditiously. Only $27 thousand remain in the pipeline from grants made prior to FY 1983. Of the $120 million granted during FYs 1981-1985, $21.5 million remain in the pipeline; the majority, $15.9 million, is from FY 1985 grants.

The attachment shows the distribution of the $120 million by country, institution and fiscal year.

A.I.D. is requesting $10 million for the FY 1987 American Schools and Hospitals Abroad program. Priority will be given to those institutions which have the best self-help records and those which offer the greatest potential for developing human resources.

Attachment
Grants by Country and Institution, FYs 1981-1985

AMERICAN SCHOOLS AND HOSPITALS ABROAD
GRANTS BY COUNTRY AND INSTITUTION, FYs 1981-1985
(In Thousands of Dollars)

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Botswana	900	-	600	550	425	2,475
Kanye Hospital, Kanye	900	-	600	-	-	1,500
Maru a Pula School, Gaborone	-	-	-	550	425	975
Brazil	190	200	-	150	-	540
Esperanca, Santarem	190	200	-	150	-	540
Cameroon	-	-	-	-	325	325
Hospital Central D'Enongal	-	-	-	-	325	325
Ecuador	300	-	-	-	-	300
Working Boys' Center, Quito	300	-	-	-	-	300
Egypt	400	800	900	1,000	2,250	5,350
American University in Cairo	400	800	900	1,000	1,850	4,950
Holy Family College, Cairo	-	-	-	-	400	400
Greece	975	725	695	1,380	1,075	4,850
American College of Greece, Athens	-	300	-	380	-	680
American Farm School, Thessaloniki	550	425	295	350	475	2,095
Anatolia College, Thessaloniki	425	-	200	375	600	1,600
Athens College, Athens	-	-	200	275	-	475
Guatemala	1,200	950	875	1,825	850	5,700
Hospital de la Familia, Nuevo Progreso	-	-	-	125	-	125
Francisco Marroquin University, Guatemala City	-	-	-	1,000	-	1,000
University of the Valley, Guatemala City	1,200	950	875	700	850	4,575
Haiti	400	150	200	-	675	1,425
Adventist Hospital, Port-au-Prince	400	-	-	-	-	400
Bohoc Technical Institute, Bohoc	-	-	200	-	375	575
Hospital St. Croix, Leogane	-	150	-	-	300	450

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Honduras	1,300	1,500	1,655	1,700	2,500	8,655
Panamerican Agricultural School, Zamorano	1,300	1,500	1,455	1,700	1,700	7,655
Escuela Internacional Sampedrana, San Pedro Sula	-	-	200	-	800	1,000
India	-	500	500	900	1,410	3,310
Kodaikonal School, Tamil Nadu	-	-	-	-	300	300
Ludhiana Christian Medical College, Punjab	-	-	500	500	500	1,500
Vellore Christian Medical College and Hospital, Vellore	-	500	-	400	500	1,400
Woodstock International School, Musoorie	-	-	-	-	110	110
Israel	2,000	2,950	3,100	4,100	4,650	16,800
American College of Belz, Jerusalem	-	-	-	-	500	500
Beth Rivka Comprehensive School, Kfar Chabad	-	-	300	450	-	750
Boys Town Jerusalem	-	800	250	-	300	1,350
Emunah Women of American Community College, Jerusalem	-	-	450	-	200	650
Feinberg Graduate School of the Weizmann Insti. of Sci., Rehovot	1,000	1,000	750	1,200	500	4,450
Gan Yavne Youth Village, Gan Yavne	-	-	-	-	150	150
Hadassah Medical Center, Jerusalem	1,000	1,000	850	1,500	1,500	5,850
Jerusalem College of Technology	-	-	-	250	-	250
Kfar Silver, Ashkelon	-	-	-	200	-	200
Laniado Hospital, Netanya	-	-	-	-	500	500
Or Hachayim Girls College, Bnai-Brak	-	150	-	-	-	150
Ohr Somayach School, Jerusalem	-	-	-	-	1,000	1,000
Shaare Zedek Hospital, Jerusalem	-	-	500	500	-	1,000
Italy	250	225	200	325	350	1,350
Bologna Center of Johns Hopkins University, Bologna	250	225	200	325	350	1,350
Jamaica	-	-	-	625	-	625
St. George's College, Kingston	-	-	-	625	-	625

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Jordan	-	200	-	400	250	850
American Center for Oriental Research, Amman	-	200	-	400	250	850
Korea	1,250	1,150	300	800	1,300	4,800
Kwangju Christian Hospital	-	-	-	250	-	250
Presbyterian Medical Center, Jeonju	450	200	200	-	400	1,250
Sogang University, Seoul	800	950	-	550	-	2,300
Soong Jun University, Seoul	-	-	-	-	900	900
St. Joseph's Girls High School, Cholla Nam Do	-	-	100	-	-	100
Lebanon	4,375	4,000	4,250	5,000	5,350	22,975
American University of Beirut	3,500	4,000	4,000	5,000	5,000	21,500
Beirut University College	375	-	-	-	350	725
International College of Beirut	500	-	250	-	-	750
Liberia	750	-	900	650	600	2,900
Cuttington University College, Suacoco	750	-	900	650	600	2,900
Malawi	750	400	-	-	700	1,850
Malamulo Hospital, Makwasa	750	400	-	-	700	1,850
Mexico	-	700	-	1,500	-	2,200
American British Cowdray Hospital, Mexico City	-	-	-	1,000	-	1,000
University of the Americas, Puebla	-	700	-	500	-	1,200
Philippines	-	1,190	1,300	1,200	1,100	4,790
Ateneo de Davao University, Davao City	-	1,190	-	-	250	1,440
Ateneo de Manila University, Quezon City	-	-	-	1,200	-	1,200
Ateneo de Zamboanga, Zamboanga City	-	-	-	-	850	850
De La Salle University, Manila	-	-	800	-	-	800
Silliman University, Dumaguete City	-	-	500	-	-	500

COUNTRY AND INSTITUTION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
Poland	-	300	150	750	250	1,450
American Children's Hospital, Krakow	-	300	150	750	250	1,450
Rwanda	-	-	575	-	-	575
Mugonero Hospital, Kibuye	-	-	575	-	-	575
Sudan	-	-	-	425	-	425
Loyola Secondary School, Wau, Bahr el Ghazel	-	-	-	425	-	425
Thailand	1,075	960	500	1,225	700	4,460
Bangkok Adventist Hospital	-	-	-	725	700	1,425
Payap College, Chiang Mai	1,075	960	500	500	-	3,035
Turkey	1,205	750	550	680	650	3,835
Admiral Bristol Hospital, Istanbul	930	750	550	400	650	3,280
Robert College, Istanbul	275	-	-	280	-	555
West Bank	750	-	-	1,000	-	1,750
Bethlehem University, Bethlehem	-	-	-	1,000	-	1,000
Mount of David Children's Hospital, Bethlehem	750	-	-	-	-	750
Zaire	130	-	550	715	550	1,945
Good Shepherd Hospital, Kananga	130	-	550	715	550	1,945
Zambia	300	-	-	600	690	1,590
Mwami Adventist Hospital, Chipata	300	-	-	600	690	1,590
Worldwide	1,500	2,350	2,200	2,500	3,350	11,900
Project HOPE Schools of Health Sciences	1,500	1,600	1,500	1,500	1,500	7,600
Project ORBIS	-	750	700	1,000	1,850	4,300
TOTALS:	20,000	20,000	20,000	30,000	30,000	120,000

FISCAL YEAR 1987 REQUEST

Mr. OBEY. One searches in vain for anything above a short list of items that the administration is reducing in its foreign assistance bill. Yours is one of them. Is that judgment based on economic factors or other factors?

Mr. SANTOS. I think it is based on the fact that the $10 million request level has been rather traditional, and that this year, given all these stringencies, it is felt that the level should be the same.

Mr. OBEY. Does the administration really think that is the real number?

Mr. SANTOS. There are a lot of people involved in arriving at this number.

Mr. OBEY. My point is a very serious one. I don't have any intention of raising accounts above administration requests this year, but if they are prepared to live with $10 million, so am I.

Mr. SANTOS. So are we, Mr. Chairman.

Mr. OBEY. Okay.

Under the budget reductions that you are effecting or proposing, can you give us some idea of which institutions would be impacted and how?

Mr. SANTOS. First of all, we will receive applications for fiscal year 1987 by the end of August. In the last few years, we have been averaging around 60 applications and they have tended to total over $80 million.

Proposals from a few institutions, such as the American University of Beirut, Project ORBIS and Project HOPE alone will exceed the $10 million request. If you include all the other requests for a variety of improvements to facilities and equipment, it is obvious that we will have to be extraordinarily selective and that many institutions simply will have to postpone or cancel hoped for activities.

U.S. ASSISTANCE TO SELECTED INSTITUTIONS

Mr. OBEY. How dependent, if you take AUB, if you take Panamerican Agricultural School, if you take Hadassah Medical Center, Project HOPE, American University of Cairo, what percentage of their funds are they now getting from American sources?

Mr. SANTOS. I would really have to provide that to you, Mr. Chairman. You are talking about ASHA sources plus private contributions?

Mr. OBEY. Plus other governmental sources.

Mr. SANTOS. Plus other governmental sources.

Mr. OBEY. Other American Governmental sources.

Mr. SANTOS. I would have to provide that to you for the record.

Mr. OBEY. Any idea on any of them?

Mr. SANTOS. Most ASHA recipients do not receive other U.S. governmental assistance. They may have some small contract or grant activities from our AID missions, but by and large, United States assistance to those institutions comes from the ASHA account.

[The information follows:]

Assistance to selected institutions (most recent fiscal year available)

[In millions of dollars]

Institution:	*Amounts*
American University of Beirut:	
ASHA	5.0
Other U.S. Government	10.7
Support Other Than U.S. Government	51.7
Total	67.4
American University in Cairo:	
ASHA	[1] 4.1
Other U.S. Government	2.0
Support Other Than U.S. Government	12.0
Total	18.1
Hadassah Medical Center:	
ASHA	1.5
Other U.S. Government	.2
Support Other Than U.S. Government	77.9
Total	79.6
Panamerican Agricultural School:	
ASHA	1.7
Other U.S. Government	.5
Support Other Than U.S. Government	3.1
Total	5.3
Project HOPE:	
ASHA	1.5
Other U.S. Government	4.7
Support Other Than U.S. Government	13.1
Total	19.3

[1] Includes Egyptian Pound Equivalents Granted in 1981.

Mr. Obey. How many get ESF funding of any kind?

Mr. Santos. The American University of Beirut does get ESF funding. For example, this year the agency as a whole is providing the American University of Beirut $11 million; $6 million of which will be out of the ASHA account, and $5 million will be from the Asia and Near East Bureau. That will cover about 20 percent of the American University of Beirut's budget.

ASSISTANCE FOR INSTITUTIONS IN AFRICA

Mr. Obey. I suppose, given the administration budget request, there is no point in asking whether you are doing anything to encourage schools and hospitals in Africa to apply for funds.

Mr. Santos. We have continued to have an increase in applications from Africa, not as many as we would like, but we have been able to increase our assistance to Africa fairly significantly, in fact a 15-fold increase from 1979, admittedly starting with a very low level, but it has been a major increase.

Mr. Obey. But as a percentage of what you provide, it's what, 10%, 12%?

Mr. Santos. From the period 1979 through 1985, it has averaged about 11 percent, but for the seven-year period before that, it was only about one percent.

AMERICAN UNIVERSITY OF BEIRUT

Mr. Obey. I have substantial question as to whether AUB ought to remain open at all. What is your judgment on that?

Mr. Santos. I think our judgment generally is that we obviously have made a wager, in continuing to assist the American University of Beirut, that it is worth investing in that institution in the hope that that society will eventually straighten itself out and that the university will be able in the future to continue as a major regional institution as it was in the past.

It clearly is not that now. Almost half its students used to come from some 60-odd countries. Ninety percent of its enrollment now is Lebanese, so it clearly is not the regional institution that it was and the basis for the rather high levels of assistance that we provided.

We hope that it will be able to return to that situation.

Mr. Obey. But doesn't it just create more hassle for Uncle Sam? Doesn't it just create another target, another visible example that can be demagogued by any anti-American around in order to point to the evil influence of America in that area?

Mr. Santos. It does do that, but I think the fact that you have almost 5,000 students willing to pay tuition to enroll in an American university shows that there is a very large reserve of goodwill and interest on obtaining an American-style education. So I don't think that we would like to see that institution closed. Clearly the Board of the American University of Beirut is very committed and has taken great steps through these years to keep the institution open despite extraordinary hardships on its faculty and staff.

Mr. Obey. I understand the rationale for it. The problem is that I think there are tactical judgments to be made that might differ from that. I know around here people often think, well, we are probably going to lose on an issue, but if we can just get a double hernia pushing extra hard, we may save an extra inch. Sometimes the best way to make progress is to say: to hell with it; if that's the way you want it, baby, you got it.

Why aren't we better off if we let the hell raisers in Lebanon say, okay, if you want to shut it down, you want to have this mess yourselves, you go ahead; you're not going to have Uncle Sam to kick around anymore?

Mr. Santos. I think that's probably a better question to ask some of our State Department colleagues, frankly.

Mr. Obey. I have.

Mr. Santos. I think they are generally committed to the idea of keeping that institution functioning as an American institution, and I think as long as the Board is also committed to that, there will be some assistance available for it.

Mr. Obey. You say 5,000 are going there now. How does that compare with previous decades?

Mr. Santos. The level of enrollment was never appreciably above 5,000. It is just that the character of the student body has changed, being mainly Lebanese now.

Mr. Obey. I have a number of other questions for the record, but we are trying to run through a lot of agencies today, so we don't have any more for you at this time. Thank you for your time.

Mr. SANTOS. Thank you, Mr. Chairman.

Questions for the Record

FY 1987 FUNDING EFFECT/ASHA ASSISTANCE DEPENDENCY

Mr. OBEY. The following five schools and hospitals have been the largest receivers of assistance through the ASHA program:

1. American University of Beirut, Lebanon.
2. Panamerican Agricultural Schools, Honduras.
3. Project HOPE Schools of Health, Sciences, Worldwide.
4. Hadassah Medical Center, Israel.
5. American University in Cairo, Egypt.

Under the FY 1987 funding level that you have proposed, how will each of these schools be affected? How dependent are each of these schools or hospitals on ASHA assistance?

ANSWER. These five would be eligible for grants in FY 1987 assuming they apply and score well in the competition. At the level proposed for ASHA, grants for these institutions would be reduced approximately two-thirds from the levels they have been receiving in recent fiscal years.

ASHA assistance provides the critical margin that permits these institutions to pursue excellence. See the table below. All would survive but the ability to deliver services would be seriously impaired. For example, AUB would have to eliminate or combine certain departments or close its hospital; the Panamerican Agricultural School would not be able to increase enrollment as its development program would be delayed; Project HOPE would have to reduce or eliminate medical education programs in Latin America or Africa; the Hadassah Medical Center and the American University in Cairo would not be able to procure U.S. equipment to replace obsolescent items.

[In millions of dollars]

Institutions:	*Amounts*
American University of Beirut:	
ASHA	5.0
Other U.S. Government	10.7
Support Other Than U.S. Government	51.7
Total	67.4
American University in Cairo:	
ASHA	[1] 4.1
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Support Other Than U.S. Government	77.9
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Panamerican Agricultural School:	
ASHA	1.7
Other U.S. Government	.5
Support Other Than U.S. Government	3.1
Total	5.3
Project HOPE:	
ASHA	1.5
Other U.S. Government	4.7
Support Other Than U.S. Government	13.1
Total	19.3

[1] Includes Egyptian Pound Equivalents Granted in 1981.

EXTENT ASHA IS AN ENTITLEMENT-LIKE PROGRAM

Mr. OBEY. To what extent has the ASHA program become like an entitlement program that schools must depend on in order to meet their annual expenditures?

ANSWER. Only a few institutions depend on ASHA to meet a portion of their annual operating expenditures. These are the American University in Beirut, the American University in Cario, Project HOPE, Project ORBIS and the Bologna Center. Most of ASHA's grants contribute to the construction or renovation of facilities such as classrooms, laboratories and libraries and procurement of educational, scientific and medical equipment. Of the 69 institutions assisted in the past five years, only 10 (14%) received assistance each year, while 28 (41%) received assistance only once.

TRUST FUND EFFECT OF AWARD AMOUNTS

Mr. OBEY. In the FY 1985 Supplemental Congress approved the use of local currency generated in Egypt to be placed in a trust fund for the American University in Cairo (AUC).

How will this trust fund effect the funds to be made available from the ASHA program for AUC?

ANSWER. The trust fund helps to support AUB's Egyptian pound operating costs. ASHA has provided assistance for capital improvements and dollar operating costs. The trust fund should help to reduce, but not eliminate, AUC's need for dollar assistance.

U.S BUDGET SUPPORT OF AUC

Mr. OBEY. What proportion of the AUC annual budget is provided by the United States?

ANSWER. Approximately 25 percent. This is a major reduction from the mid-1970's when the total was over 60 percent. If U.S. contracts and special grants are included, the percentage increases to 33 percent.

WEDNESDAY, APRIL 9, 1986.

FOREIGN DISASTER ASSISTANCE

WITNESS

JULIA V. TAFT, DIRECTOR, OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. OBEY. Now the committee will turn to the $25 million fiscal 1987 request for disaster assistance, an increase of $3.5 million above the 1986 level. With us is Julia Taft, Director, Office of U.S. Foreign Disaster Assistance, Agency for International Development.

Go ahead.

INTERNATIONAL DISASTER ASSISTANCE

Ms. TAFT. Thank you. It is a pleasure to be here.

You have my written statement in the congressional presentation. I would like to talk informally about a few aspects of this past year and then hear any questions you might have.

1985 was really an extraordinary year, as you know, with the cyclone in Bangladesh that killed 10,000 people, the Chilean earthquake, 10,000 people dying in the earthquake in Mexico, and hundreds of thousands dying in Africa. I think we can say fairly that it was the most disastrous year in the history of OFDA's activities.

I want to bring you up to date on a couple of items, particularly in Africa with the African supplemental because I know you have been very interested in the expenditures under that program and in making sure the funds were obligated by March 31st, which was the expiration date.

We did obligate all the money by March 31st. The first obligations actually began the 5th of May, after all of the country plans were prepared, so in that short a time, we have completed the obligations. 154 projects were funded. What is interesting about the breakout of these projects is that about 24 percent of the activities were short-term completed efforts, primarily the logistical support, and immediate transportation, feeding and medical supplies—but the remaining funds, which are about $103 million that we have obligated, are supporting programs which will stay in place for the rest of this calendar year.

So it is not as though we have just stopped all of the relief assistance as of March 31. It is continuing and we think that is very important to keep in mind as we look for its implications for future funding.

I would like to say also that the Office of Foreign Disaster Assistance is not the drought office of AID. It is very clear that the Africa Bureau is going to have to take the lead on the drought, but we have already established very good working relationships with them.

The role for OFDA after the supplemental obligations have been completed, we think, is mostly in needs assessments, working with the early warning systems, providing training and technical assistance, and making sure that those areas where there is a chronic drought do not revert into famine situations. We are going to be working very closely on that.

DISASTERS OTHER THAN DROUGHT

With regard to the non-drought disasters, mostly the Mexican earthquake and the Colombian volcano eruption, I would like to say that both of those experiences were an extraordinary training ground not only for OFDA but for the United States Government and the state and local governments that were involved in disaster assistance.

We have continued to be in touch with the State of California and many other state and local organizations and government units that assisted us in coordinating the relief to Mexico and to Colombia. Every one of these agencies has said, "we really learned so much to help us." California disaster preparedness people are in the process of revamping all of their disaster preparedness plans based on their exposure in Mexico City to the first major urban earthquake that had ever struck in this hemisphere during their lifetime. They were down there, they saw the impact on the lifelines, they saw the impact on the health system, they could see what the secondary and tertiary effects of such an earthquake were in an urban area and learned a lot which may be applicable to California.

I say this because I think sometimes there is some impression that when we give foreign assistance for disasters it does not really also help us. This is illustrative that our generosity to help others will also help Americans, too.

The second example that underscores this has to do with the volcano monitoring in Colombia. The U.S. Geological Survey has worked with us in monitoring the Ruiz volcano and in training the Colombian volcanologists who recently established a volcano institute. USGS has trained the volcanologists for Colombia so that Colombia, itself, can now monitor its own volcanos.

The USGS personnel sent to Colombia have come back and have indicated to us on several occasions that, through the monitoring of Ruiz volcano, they have learned more about how they can monitor Mount St. Helens better as well as other volcanos in the United States.

So it is really a two-way street. I think it is important for this committee to know that, because it is an investment that does pay us off in the long run.

The other points that I have in my written presentation give you all the statistics that you might need for the record. But I think perhaps it would be best at this time for you just to ask any questions you might have about our program.

[The prepared statement of Ms. Taft follows:]

STATEMENT
OF
JULIA V. TAFT, DIRECTOR
OFFICE OF U. S. FOREIGN DISASTER ASSISTANCE
AGENCY FOR INTERNATIONAL DEVELOPMENT

BEFORE THE
SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 20, 1986

Mr. Chairman, 1985 was a year of unprecedented human tragedy resulting from natural and man-made disasters. Devastating earthquakes in Chile and Mexico, cyclones in Bangladesh and Fiji, a volcanic eruption in Colombia and 27 other sudden disasters to which OFDA provided relief claimed thousands of lives throughout the world. At the same time millions of people were threatened by the drought and famine conditions which ravaged sub-Saharan Africa.

In the twenty-one-year history of the Office of U.S. Foreign Disaster Assistance (OFDA), never has the collective magnitude of disasters been so great nor the level of appropriated funds been as substantial to ensure effective U.S. response. Yet in spite of the extraordinary demands which were placed on the OFDA staff, I am pleased to report that the office not only met the challenges with diligence and competence but also learned many valuable lessons which offer new opportunities to improve our operational effectiveness in the future.

As you know, I assumed the directorship of OFDA only in January of this year. In several of my past positions, I have had the opportunity to observe the office's work at first hand. I was frankly amazed, however, when I had to come to grips with the breadth and depth of the responsibilities which rest with OFDA. Our greatest challenge is to turn our focus to those areas in which we can be assured of the greatest impact while ensuring that the U.S. Government's International Disaster Assistance program is as responsive as possible to the needs of disaster-threatened populations throughout the world.

Some of the disasters to which we responded in 1985 are indicative of the changing patterns of international disaster assistance which should be of interest to this Committee.

One of the patterns is the increased ability of some disaster-prone nations to respond effectively to their own disaster requirements. The Chile earthquake relief effort of March, 1985, was an excellent example of how host country national organizations which have emphasized disaster preparedness can effectively coordinate massive relief efforts with minimal outside assistance. The fact that only 177 people died in the earthquake - which shocked urban areas - also is a testimony in part to the value of quality engineering design based on sound assessment of disaster threat. It is encouraging that the Chilean authorities, along with our own National Science Foundation, OFDA and others, are actively following new initiatives to find better ways to protect populations from the earthquake threat in Chile.

In May, 1985, an estimated 10,000 people died in Bangladesh from a devastating cyclone and storm surge. To put that tragic toll in perspective, however, we must remember that a storm of comparable strength killed at least 300,000 people in the same area in 1970. The difference in 1985 was, in large part determined by the cyclone alert system installed by the

National Oceanic and Atmospheric Administration and the National Aeronautics and Space Administration in 1982 which was funded by OFDA. This technology, which generated early warnings transmitted via greatly improved communications networks, is credited with the saving of several thousand lives.

In Bangladesh there has also been a significant commitment to disaster preparedness over the past several years. This commitment has paid off, as demonstrated by the fact that the Government of Bangladesh proved itself capable of responding to the needs of the stricken population with only financial support provided by the donor community. The need for such financial support is indicative of the high correlation between economic stability and self-sufficiency in the face of disaster, which is examined below.

The Mexico earthquake of September 18 was the most severe natural disaster in the Western Hemisphere since the Guatemala earthquake of 1976. It was the first time the Mexican Government had accepted large-scale assistance from the United States in several years. It was the first time OFDA officially deployed search and rescue teams. It triggered the largest U.S. public and private assessment and coordination capability yet fielded by OFDA. And it was the first major disaster to occur since OFDA's immersion in the Africa famine relief program. The sum of these "firsts" has prompted intense internal reviews of OFDA's operating procedures and resources, and these have already yielded new opportunities for improving our effectiveness and efficiency.

A couple of points should be made with regard to Mexico.

Thirty six hours after the earthquake struck on a Wednesday, AID and the State Department were still receiving word that the Government of Mexico would not be receptive to assistance from the United States Government. It was not until that Friday evening that the enormity of the catastrophe suggested that the threshhold of self-sufficiency had been surpassed. It is sad, but perhaps inevitable, that countries which are suffering economic hardships may be forced to reverse their admirable goals toward self-sufficiency in disaster relief. Countries may become "disaster-prone" overnight in the sense that they are unable to respond totally to major natural disaster events.

The humanitarian needs of the Mexican people resulting from the earthquake tragedy evoked enormous generosity by the American people. More than $40 million in aid flowed into Mexico from private citzens, voluntary agencies, and the U.S. Government. In return, governmental agencies as well as communities throughout our country, received an extremely useful perspective about the impact of a major earthquake in an urban setting. Already California disaster preparedness officials at the state and local level are modifying some of California's earthquake contingency planning based on the Mexico City experience in the fields of lifeline support, rescue techniques, building codes, zoning, emergency medical aid and communications support.

This example underscores the relevance of U.S. foreign disaster relief aid to our own communities at home. For this reason, OFDA is developing collaborative arrangements with a variety of Federal, state, and local governments to provide preparedness training, technical assistance, and disaster response to disaster-prone countries in such fields as wild fire suppression, disaster management and assessment, search and rescue, and volcano monitoring. Such aid is not only an investment in helping recipient disaster-prone countries better protect their populations, but also the trainers receive valuable hands-on experience which improves their own ability to service U.S. citizen at home, should similar disasters strike.

A current initiative in Colombia illustrates this point. Less than two months after the Mexico earthquake, 23,000 Colombians were killed by mudflows generated by an eruption of Nevado de Ruiz volcano. A few months before that eruption, a U.S. volcanologist, with OFDA funding, had been working with Colombian and international counterparts to determine the risk level of the communities surrounding Ruiz. At the time of the eruption, hazard maps and evacuation plans were being prepared, but they were too late for the people of Armero who died under the mud. OFDA has continued scientific assistance to Colombia through the U. S. Geological Survey (USGS) to ensure that the remaining populations in the area can be adequately warned of any future precursors of events which might threaten them.

With U.S. Army helicopter support, scientists of the USGS and private institutions have worked with their Colombian counterparts to install monitoring equipment and to establish an observatory to monitor the volcano. In the few intervening months, the Geological Survey has done a truly remarkable job in transferring operating and analytical expertise to the Colombian scientists. As of one week from tomorrow, the U.S. Government will formally turn over remaining responsibility to the Colombians who are now qualified to maintain the watch over the still dangerous volcano. The scientists of the USGS deserve much credit for their contributions. But they modestly report that they have received valuable information from the Ruiz eruption which will enhance their continuing evaluations of U.S. active volcanoes such as Mount St. Helens.

The common disaster theme throughout 1985 was the famine in Africa. At the time it was happening, the relief effort appeared slow. In retrospect, however, it seems incredible that so much assistance has been provided in a targetted and coordinated way and so many people have received a new lease on life - literally - in the less than one year since enactment by the Congress of the supplemental funding for the African drought victims.

As massive as the relief effort has been, we are aware that many drought-related problems still exist in Africa. OFDA will continue its close monitoring of the situation in conjunction with the AID Africa Bureau and will respond should life-threatening events require our intervention.

In addition to these extraordinarily important relief efforts this past year, OFDA has continued to advance the causes of preparedness, early warning and mitigation. OFDA provided disaster-related training opportunities to nearly 200 foreign nationals, and we continued with our technology transfer activities and supported mitigation programs in housing, agriculture and health. Additionally, OFDA supported the development of six disaster-related courses as part of the new extension/correspondence course on disaster relief at the University of Wisconsin. We will be encouraging the use of these course offerings throughout the developing world.

Through the years of its existence OFDA has assisted disaster-prone countries to protect their populations from disasters and provide relief and rehabilitation when they inevitably occur. Built in large part on faith and logical assumptions, we believe OFDA's programs have had a truly positive effect on reducing the risk of disaster-threatened populations.

OFDA must never underestimate its primary responsibility which is to provide immediate, effective and efficient disaster relief to the victims of natural and man-made disasters. I have taken very seriously the emphasis placed on emergency management by my predecessor. We are committed to improving our skills and resources and are currently utilizing some of the best expertise in the country to do so.

At the same time, I am struck by the fact that only rarely do we have the opportunity to save lives after a disaster strikes. Thus, we cannot ignore those preparedness, early warning and mitigation activities which enable host countries themselves to respond effectively to the needs of their own populations at risk.

Some of the more technical work we have sponsored in early warning systems has stimulated great improvements in the state of the art of disaster forecasting for drought, storms, tsunamis and seismic activity. We have progressed to the point where we can now concentrate on applying proven scientific and technological capabilities directly to the needs of the populations at risk. We believe improved host country disaster preparedness and management should be a primary focus for future OFDA preparedness programs. At the same time, we shall find new ways to encourage other elements of the U.S. Government which have broad technical ability (NOAA, NASA, USGS) and the private sector to pursue scientific and technological areas of mutual interest.

In fiscal year 1985, $25 million was appropriated to OFDA for International Disaster Assistance activities. An additional $560 thousand was carried over from 1984. In April, 1985, $137.5 million was appropriated by the Congress for the African drought and famine Emergency. In fiscal year 1986, our International Disaster Assistance budget level is $21.5 million, excluding the African supplemental funds available through March 31. This level signals a return to more normal levels of funding. Given our average normal requirements for disaster relief, we shall continue to be responsive to needs within our budget.

For fiscal year 1987, we are requesting $25 million for relief and rehabilitation activities, preparedness, early warning and mitigation. The program which we have outlined in our Congressional Presentation reflects the emphases which we firmly believe will best serve the needs of populations threatened by disaster. The fact that we are reviewing those emphases simply means that we shall be able to focus more successfully on those activities which will offer the most effective U.S. and host country response to natural and man-made disasters.

Mr. Chairman, I am extremely pleased to be the new Director of the Office of U.S. Foreign Disaster Assistance and cannot imagine another office within the foreign affairs community which offers greater satisfaction in terms of meeting humanitarian needs. I want to thank you for the consistent support which you and your Committee colleagues have offered OFDA through the years. I look forward to continuing a close working relationship with your Committee and its knowledgeable staff.

FY 1987 REQUEST COMPARED TO FY 1985 PROGRAM

Mr. **Obey**. Okay, just a quick very few. In fiscal 1985, the Disaster Assistance program cost $162 million in appropriations.

Ms. **Taft**. Yes, sir.

Mr. **Obey**. And $50 million in funds borrowed from other accounts?

Ms. **Taft**. The Congress appropriated $162.5 million in FY 1985 and, and in addition, we borrowed $31.8 million of our $50 million borrowing authority. The actual level of obligations, however, was $155.5 million, with the remainder being programmed against FY 1986 requirements.

Mr. **Obey**. Now I recognize what you said about others being lead agencies in dealing, for instance, with the African drought. But how realistic do you think your '87 request is for $25 million?

Ms. **Taft**. This was the one question I was told you were going to ask. Now that you have asked it, I am not sure I can answer it.

[Laughter.]

Ms. **Taft**. Yes, I can. We have done quite a few analyses of how much money we really do spend and for what types of disaster situations throughout the years.

FY 1985 was an extraordinary year, you are right. We believe the $25 million will suffice knowing that, in fact, we have the borrowing authority for up to $50 million that Congress has authorized. That is a total of $75 million. Even this year, for 1986, the most we will be spending, including the carry over supplemental funds, should be about $97 million.

So we think that the $25 million is a good base. If there are extraordinary needs, we have the borrowing authority. I have looked at this very carefully and really think that is going to be more than enough, that is, if we do not have any other major disasters between now and the end of September.

Mr. **Obey**. How do you determine what funds are borrowed and how are you going to go about paying them back?

Ms. **Taft**. This is done through an A.I.D. office called PPC, Program and Policy Coordination. They identify which area, which budgets, particularly in the development assistance accounts, have not been obligated which can be reprogrammed. They make all those arrangements for us.

Last year the borrowed amount was $31.8 million.

BUDGET CONSTRAINTS

Mr. **Obey**. And the reason I asked the first question is because we are in a very different ball game than we have ever been in before with Gramm-Rudman.

Ms. **Taft**. Yes, sir.

Mr. **Obey**. With a Congressional election coming up. With the fact that people are not anxious to cut the hell out of cancer research and education and all of the favorites here at home in order to finance foreign assistance.

Whatever bill comes out of this committee is going to be a skeleton of past bills. And that means that what you ask for is——

Ms. **Taft**. That should suffice.

Mr. OBEY. I mean, if given the problems that can develop unexpectedly, and given the fact that there are not going to be any supplementals out of this committee. Not as long as Gramm-Rudman is in effect. And given the fact that the bill that is likely to come out of this committee will be less than half the size that it was last year overall, you are going to have a hell of a time finding money to borrow.

COST-EFFECTIVE USE OF DISASTER ASSISTANCE FUNDS

Ms. TAFT. That is right. As I said, we are the ones that express what the need is.

I must let you know, though, that the nature of the aid that has come out of the Office of Foreign Disaster Assistance through this account has really changed substantially over the years. We are really using the money that we have now, to the extent we can, as seed money and leverage money to get other donors to help co-fund certain activities.

We are depending much more now on interagency agreements to get the talent we need in search and rescue, fire fighting and health care so that we do not have to buy these skills off the street. We use the government agencies that have the capability, and all we have to do is pay the TDY costs—travel and per diem—to get them to the disaster site. We have done a lot of work in terms of determining exactly where we get the most effective response with the least amount of funds.

We have looked at issues such as what we should provide and who else typically gives what kinds of services. We do not want to duplicate assistance. For example, if everybody else sends blankets, we should not send blankets. And we are looking very carefully at improving the targetting of our funds through a number of improved management tools. I think this is going to work.

PREPAREDNESS AND EARLY WARNING

The investment in preparedness activities has really been cost-effective. The funds that have been allotted for early warning systems in severe storm's tsunamis and volcanoes have been quite effective. We are able to save millions of dollars in relief funds by having an alert system in which the host country knows hours or two or three days in advance that, in fact, the disaster may be imminent. The country is able to prepare it citizens to evacuate and minimize the effects.

We saw that happen in Bangladesh. We have seen it in Madagascar. We have seen it in other places where, with an OFDA investment made last year and the year before in warning systems, has saved us millions of dollars in terms of the relief response. The self-sufficiency levels of the countries we have assisted seem to be rising.

Now, of course, you never can be sure of a country's self-sufficiency. Mexico had not asked for disaster aid for several years before last year. But the investment of the U.S. Government was $4.5 million, and $40 million from other sources in the United States were involved in Mexico. So I also think there is more of an awareness and linkage to other donors which limits our having to pick up the total investment in the relief.

COLOMBIA VOLCANIC DISASTER

Mr. OBEY. Colombia. What steps are being taken in Colombia, in light of the experience down there last year, to assist in evacuation procedures, communications, warning in the areas of potential mudslides or further blows?

Ms. TAFT. We have spent about $2.6 million in Colombia. Most of the investment, other than the immediate relief, has gone into instrumentation for monitoring the volcano and the training of Colombian volcanologists and their liaison with the civil defense in the country.

Colombia has a warning system. The Colombians, as of the end of March, have totally accepted their own capability to be self-sufficient for the warning, for the monitoring, for the alerts, and have not asked us for any additional assistance.

Mr. OBEY. How about communications in evacuations?

Ms. TAFT. The communications network which they have for evacuation, as I understand it, is established through the scientists to the mayor, to the civil evacuation and civil defense instrumentalities. I do not believe we have been involved in the training of the Colombians to do that or the instrumentation for that.

We have not been asked to participate in this.

Now, we have asked the volcanologists who have gone down there.

Mr. OBEY. What are they going to be doing to tell the people in cities to get the hell out of the way?

Ms. TAFT. Well, that was exactly the question I asked when the last group of volcanologists were going down. I said, "we have got all this great talent down there who can identify when the mud flow is going to start, but who do they call?

I have been assured that there is a system where the scientists and the people who are looking at the instruments on a 24-hour basis have an alert system that is linked to the mayor and the authorities in the potentially affected towns along the mud flow line.

Now again, as you know, we just respond to host country requests for assistance. And we have done almost everything that they have requested. They did want some more volcanologists trained in other places which we thought was perhaps excessive. I will be pleased to expound on this subject for the record.

[The information follows:]

WARNING SYSTEM AND EVACUATION PLAN FOR THE HAZARDOUS AREAS AROUND NEVADO DEL RUIZ VOLCANO, COLOMBIA

In early December, the Government of Colombia asked Ambassador Gillespie for assistance in procuring sirens for warning the civilian population in vulnerable areas.

Through OFDA, contact was made with a Disaster Supply Company in Texas. The GOC said they would pay for the sirens, and the Texas Company wrote several letters and presented full proposals, with specifications and budgets. There was never a formal request for AID/USG to pay for the system. However, the GOC has never given the Texas Company any order or request to proceed.

The terrain around the vulnerable area is quite rough and mountainous, and according to the OFDA regional advisor, a natural sound barrier. Any sirens would have to be extremely powerful, and would require AC electric power. The cost range would be $4,000 to $7,000 for each siren, plus towers, and installation costs.

According to the OFDA advisor, who has visited the region and reviewed this matter, the sirens would be of little use if there were no evacuation plan with tight discipline and direction. From the beginning, the GOC has not designated clear responsibility to Civil Defense or Resurgir.

AID/OFDA can respond only if there is a specific request and would not want to invest in sirens unless the request were accompanied by a workable plan and system for implementation.

The OFDA advisor also notes that the Colombians have more than an adequate supply of radios for a communication system associated with an alert and evacuation plan.

Our understanding of the existing GOC alert and evacuation system is that when a potentially threatening volcanic event appears to be imminent, the scientists at the Volcano Observatory in Manizales inform the senior government official. He, in turn, advises the Presidency in Bogotá, where the information is analyzed and a decision made whether or not to issue evacuation orders. If evacuation is ordered, the word is passed to Government, provincial, municipal, Civil Defense, and Red Cross officials via operational radio communications nets and commercial radio stations.

No request for additional assistance in this area has been received.

U.S. MILITARY CHARGES FOR COLOMBIA ASSISTANCE

Mr. Obey. During that disaster, it is my understanding that the military charged for helicopters and personnel $100,000 a day; is that correct?

Ms. Taft. They charged whatever the rate is for the military airlifts of those kinds of equipment.

Mr. Obey. Do you have any role in negotiating what they charge? I mean, that seems very, very high to me. And it seems like it is an opportunity for—I do not really know what it costs them—but it seems to me that is an opportunity for the biggest of all budgets to rip off some more from other budgets.

Ms. Taft. I have looked at this issue in my previous incarnations in other relief areas, and once actually as a consultant in DOD reviewing with them their seemingly high costs.

One of the things that OFDA, for two or three years, had pushed with DOD was to negotiate a rate that was, at least, the DOD rate for emergencies. OFDA did not want to pay the rate for other U.S. Government agencies which is even higher than the DOD rate. OFDA was successful in negotiating that lesser rate. The costs that are expended by OFDA for aircraft and for airlift are the minimum that DOD even charges for its own operating components.

If you want us to see if we could negotiate even lower than that, we could certainly try, but I do not think we will have much success. The success that OFDA had in even getting them down to the DOD rate was major.

We do not use DOD airlift all the time. We did use it in Armero because we were involved in search and rescue, and one has to do that instantaneously. I mean, we had to be on the ground within 24 to 48 hours.

In the last year, there was an option of using some DOD airlift in Sudan, but, they were just too expensive. We did not use DOD aircraft but rather used Columbia Helicopters with DOD Transporting the helicopters to and from the United States. We also have used TransAmerica and other airlines for airlift.

As in Mexico for instance, when we anticipate a lot of commodities may be donated and sent to one place, we plan to work closely with the commercial airlines to develop special arrangements for more efficient and effective cargo shipments.

When it comes down to something that we need to move urgently the only place we can turn to is DOD. I will take your suggestion to heart. We will try to see what we can come up with. But it is very tough.

Mr. OBEY. Okay. We have got two or three other questions for the record, but we are out of time. So thank you very much.

Ms. TAFT. Thank you very much.

[Question submitted for the record follows:]

Questions for the Record

COLOMBIA: U.S. MILITARY RESCUE EFFORTS

Mr. OBEY. More than 20,000 people were killed last year from the mud slide that developed following the eruption of the volcano. One of the reasons for so many deaths was the inability to warn people in the path of the mud slide.

Have any efforts been made to establish a program that would allow U.S. military rescue efforts to provide services in declared emergencies without reimbursement from the disaster account?

ANSWER. The Department of Defense commander in close proximity to an international disaster site has the authority to react immediately to save lives and protect against further damage, in accordance with DOD Directive ISA/DOD No. 5100.46. To the best of our knowledge, DOD personnel have been in a position to use this authority infrequently but have responded each time (e.g., Azores, 1981; Lebanon, 1983; Turkey, 1984; Italy, 1976, 1980; Philippines, 1976).

All other DOD efforts during declared disasters have been coordinated and funded by A.I.D.'s Office of U.S. Foreign Disaster Assistance (OFDA) through the appropriations and authorities as outlined in the Foreign Assistance Act of 1961, as amended.

The DOD and most Federal agencies provide service to OFDA without charging for the salaries of personnel deployed on international disaster assistance missions or for support personnel. In 1984, DOD agreed to reduce airlift charges to AID/OFDA for international disaster assistance to the same rate DOD charges a military service. This has resulted in considerable savings to the International Disaster Assistance account.

LEGISLATIVE RESTRICTIONS REGARDING U.S. MILITARY DISASTER ASSISTANCE

Mr. OBEY. Provide for the record the legislative restrictions in regard to U.S. military assistance during disaster situations.

ANSWER. The major legislative constraint which limits DOD actions in humanitarian/disaster assistance is Title 10 U.S. Code. Fundamentally, Title 10, which establishes DOD missions, makes no mention of humanitarian assistance. Accordingly, the Services do not request and Congress does not appropriate funds for such purposes. Within the executive branch, Executive Order 12163 of 1979 gives the Director of the International development Cooperation Agency (and, through the Director, The Administrator of A.I.D.) policy and budgetary control over humanitarian assistance. In addition, DOD is bound by Title 31 U.S.C. 1301, which states that "Appropriations shall be applied only to the objects for which the appropriations were made. . . ." Accordingly, DOD-initiated humanitarian action has been limited to instances when the Secretary of Defense has decided that such activities were an integral part of the defense mission, when commanders-in-chief have found such activities to be required for or incidental to their defense functions, or when military authorities perceived an imminent danger of loss of life or extensive property damage.

DOD is able to provide humanitarian assitance when it is explicitly requested by A.I.D. or any other U.S. Government agency under the trms of the Economy Act (31 U.S.C. 1535 and 1536). Agencies ordinarily are required to pay DOD's full cost for the service provided.

Other legislative authorities providing some flexibility to DOD in the humanitarian area currently include:

1. Denton Amendment.—Section 1540 of the Department of Defense Authorization Act, 1985, as amended by Section 306 of the FY 1986 Defense Authorization Act (referred to as the "Denton Amendment") is worldwide in scope and grants the Secretary of Defense authority to transport private sector humanitarian cargo without cost on a space-available basis or regularly scheduled airplanes and ships. This authority is carried out under the policy direction of the Secretary of State, who has redelegated implementation of the program to the A.I.D. Administator. If a DOD flight schedled coincides with a disaster for which OFDA wishes to send relief supplies, OFDA would not be charged for the airlift. The Denton authorization expires September 30, 1986.

2. Stevens Amendment.—Section 8103 of the FY 1986 Defense Authorization Act (referred to as the "Stevens amendment") authorizes DOD to use its appropriate Operations and Maintenance Account funds to pay for humanitarian and civic assistance costs incidental to authorized operations. While it is worldwide in scope, report language further restricts it to Joint Chiefs of Staff-directed and controlled exercises.

This annual authorization/appropriation expires on September 30, 1986. It is currently used primarily by regional commands.

3. McCollum Amendment.—Section 1454 of the FY 1986 DOD Authorization Act gives the Secretary of Defense authority to donate non-lethal DOD excess property to qualified recipients worldwide. This authority is permanent. It requires that DOD excess property be transferred to the Secretary of State for distribution.

Section 305 of the FY 1986 DOD Authorization Action authorized the appropriation of $10 million to transport DOD excess property exclusively to the Afghan people.

With the exception of the worldwide applicability of the Denton amendment, there is no authirity of funding to transport DOD excess property to any region of the world except to the Afghan people. A.I.D. which traditionally handles DOD excess and surplus property distribution worldwide through the Government Property Resources Division in New Cumberland, Pennsylvania, recently abolished that office.

WEDNESDAY, APRIL 9, 1986.

U.S. TRADE AND DEVELOPMENT PROGRAM

WITNESS

CHRISTIAN HOLMES, DIRECTOR, U.S. TRADE AND DEVELOPMENT PROGRAM

Mr. OBEY. We will now hear from Mr. Chris Holmes, director of the Trade and Development Program. This program requested $20 million last year. After sequestration it was funded at $18.1 million.

Chris, why don't you unload?

Mr. HOLMES. Thank you for the opportunity.

The aspect of this year's testimony that distinguishes it from previous years is that we have done our best to list for you, in as detailed a fashion as we can, the accomplishments of the program.

I fully recognize that Gramm-Rudman-Hollings most certainly directly relates to the AID bill and programs like my own. And I therefore hope that when you look at our program this year, you will take into account our specific accomplishments.

As you know, we finance planning for the development and construction of projects in developing countries. We are, in fact, the only agency, other than EX-IM, that is devoted to trade finance. We are the only source of foreign assistance funds that are used for trade finance. We see our objectives as two-fold.

On the one hand, we seek to help developing countries make the right decisions when they plan for the development of large-scale projects. And on the other hand, we seek to make sure that American firms benefit commercially from those decisions.

The testimony on pages 6, 7 and 14 basically, Mr. Chairman, take you to the bottom line of our program. We are seeking $18 million to enable us to continue the momentum identified in my prepared testimony.

I thought in order to bring our program to life, I might quickly summarize our program in Thailand and then move on to questions that you might have.

Thailand is a country which is a major market for the United States. It is also a country which is of strategic importance to the United States. The Thais have two major developmental needs.

One, is to shore up their power system. The other is to improve their hazardous waste management. We have targeted these two areas in such a fashion that big firms and small firms alike in the United States benefit. We have also targeted in such a fashion that we think that the Thais are making some decisions they might not have made without the benefit of our planning.

Let me give you a couple of examples of our work. In the area of high power transmission lines, back in 1982 we provided a grant to the Thais to do the planning of the design and construction. A small firm out of Missouri called LEMCO won this contract. The Thais, in turn, awarded them a series of additional contracts totaling $11 million.

An intriguing facet to this program is that when you come across a project that is a winner, firms that conducted the initial TDP-financed study receive follow-on work.

Subsequently, we funded a project on the development of lignite in Thailand. Interestingly, for a $400,000 study, firms out of Illinois and Ohio received $30 million in contracts for the provision of trucks.

And now we are looking at hazardous waste. Developmentally, and of course, I am not the world's expert on development, my personal feeling is is that perhaps the top priority in Thailand is to ensure that their water is clean and that they correct their hazardous waste problems.

Bangkok, as you may know, floats on water. And some people feel it floats on water contaminated with sewage. We understand that the cadmium levels in the water in Bangkok are sufficiently high to cause concern that the cadmium might cause retardation——

Mr. Obey. You said cadmium?

Mr. Holmes. Cadmium, like in lead—with the children.

If you have ever been to Bangkok, you know that they drink the water, they swim in it, cook in it. So we are doing the fundamental study in Thailand on how to process their hazardous waste, targeting in this area.

We are also doing it because we know the Thais are going to put their money into this project. And finally, we are doing it because we know that American firms will get the inside track on the project.

We are also undertaking other activities in Thailand that are interesting variations on what we have done in the past. We recognize that available public sector capital is shrinking. Increasingly, developing countries are turning to the private sector for capital, but it is hard to attract private investment their private sector and ours.

In the hazardous waste sector, we have been working with the Thais on developing a project wherein we are putting together the funds to do a prospectus on the treatment of waste where the Thais are willing, at least preliminarily, to commit to buying the waste to use for energy for their own power system. In so doing it, they are not going to have to go to the development banks or to AID to get the financing. Rather they will go to the private capital markets.

We are also undertaking this approach to promote U.S. exports to this project.

The environment we are operating in is a tough one and we have to be imaginative. Internationally, all of our foreign competitors, Japan, Canada, Australia, all the OECD countries have got programs like TDP. In fact, in Thailand in one ministry alone that we negotiate with, they receive $10 million a year in offers to do feasibility studies. And everybody is in there trying to do the studies because they know the ministry has got the financing to cover follow on work.

In terms of the results, when we first came to your Committee in 1981, there were 30 people in our office working on a $4 million program financing 20 projects. We now have 16 people in our office. We have financed 325 projects. We have approximately $55 million worth of work behind us. We have evaluated approximagely $20 million in studies financed primarily from FY 80–83, and estimate these studies have helped generate at least $500 million in exports from the United States.

All of these success stories, all the follow-on that I discussed in my testimony, would not have occurred if we hadn't jumped in.

For the future, we plan to try to replicate what we have done in the past; the only new twist in the program is that in many ways we find that the information that we possess on the opportunities in developing countries may be as important as the money we give out. We are thus trying to figure out a way in which to get to the small and large business community the information we have on the development of projects in these countries. I think that is going to be a real challenge and maybe one of the best things we could possibly do.

Thank you very much.

[The prepared statement of Mr. Holmes follows:]

TESTIMONY OF

CHRISTIAN HOLMES
DIRECTOR

U.S. TRADE AND DEVELOPMENT PROGRAM

FY 87 APPROPRIATIONS REQUEST

BEFORE THE

SUBCOMMITTEE ON FOREIGN OPERATIONS

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

APRIL 9, 1986

Mr. Chairman, Members of the Subcommittee:

Thank you for this opportunity to testify on behalf of the Administration's FY 87 appropriations request for the Trade and Development Program (TDP).

For FY 1987, we are requesting $18 million to support TDP operating and program expenses. This amount will enable TDP to leverage a relatively small amount of foreign assistance funds for the benefit of American workers and developing countries alike.

The principal justification for our request is not just the need of developing countries and U.S. exporters for the services provided by the Trade and Development Program. Fundamentally, the justification is TDP's track record. For example, from FY 1980 through FY 1982 TDP leveraged $20 million in foreign aid so as to generate at least half a billion dollars in U.S. exports from 30 states. We have targeted TDP funds on assisting developing countries plan major projects critical to their future; in so doing we have given U.S. firms the inside track on selling U.S. goods and services needed in the design, construction and operation of these projects.

Due in large part to your Subcommittee's support, we have become a significant factor in our government's efforts to promote trade and investment with developing countries. In FY 1981 we managed a $4 million, 20 project, portfolio. By the close of FY 1985 we had managed a total of 325 projects, costing about $55 million. Of those 325 projects about two-thirds still require our attention. During that time, we have streamlined our operation, relying increasingly on the U.S. private sector to implement our program. The following table charts the evolution of the TDP program and outlines our FY 1987 request.

Trade and Development Program

Program and Operating Expense Obligations
($ in 000)

	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	Estimated FY 1987
Total TDP	4,838	5,463	6,796	12,614	16,561	21,049	18,807	18,000*
Program Funds	3,779	4,000	5,514	10,899	15,010	19,300	16,907	15,920
Operating Exp.	1,059	1,463	1,282	1,715	1,551	1,749	1,900	2,080

*President's Budget Request.

UNIQUENESS OF TDP:

TDP is unique among foreign assistance programs because of its efforts to meet both U.S. trade and aid objectives simultaneously. TDP does this primarily by financing feasibility studies on developing country projects, such as dams, power stations, agribusiness enterprises, which are potential export markets for U.S. goods and services.

TDP's efforts are greatly enhanced by our Congressional Mandate which encourages TDP to operate not only in the foreign aid recipient countries but also in the so-called non-A.I.D. countries such as China, Colombia, and Turkey. Additionally our authorizing statute encourages TDP to concentrate on helping U.S. business develop natural resources which are of strategic importance to the United States, such as cobalt and chromite. We thus have broad authority to help countries develop, while also assisting U.S. firms to capture major export business in developing countries. In sum, for TDP, trade is aid.

We work closely with American businesses. For example:

-- When an American firm is bidding on a planning contract, which may literally mean millions of dollars to U.S. exporters, and runs the risk of losing that contract due to subsidized foreign competition, the American firm knows it can turn to TDP--and it also knows we make a decision within 48 hours on a major TDP grant.

-- When a developing country has committed funds to build a project, U.S. firms know that TDP will do its best to convince the country that the United States firms, with TDP support, should do the planning of the project--and not firms from such countries as Japan, France, Germany, and Canada which have programs similar to but larger than TDP.

-- When American investors find projects which are not only excellent investment opportunities but also possible U.S. export markets for U.S. firms, U.S. investors know TDP is often prepared to co-finance the feasibility studies with them.

Most importantly, American firms and developing countries know that TDP is willing to innovate, take risks, and aggressively go to bat for U.S. firms for the benefit of both developing countries and U.S. firms alike.

In terms of our development impact, TDP concentrates on projects which the developing countries themselves believe to be crucial to their development. While A.I.D. does not normally finance such activities as toxic waste disposal systems, power plants, transmission lines, airports, and telecommunications systems, such projects are of major importance to developing countries and must be carefully planned. It is thus at the planning stage where TDP makes a very important contribution to a country's development. Additionally, TDP is the principal aid program dealing with the middle income developing countries. Nations such as Colombia, Turkey, Brazil, Korea, and China find TDP to be a very valuable tool to further their development plans. TDP thus fills an important niche in the overall effort of the USG to strengthen the economics of the developing world.

ACCOMPLISHMENTS

The following table identifies (a) major development projects on which TDP has conducted feasibility studies; (b) the dollar value of the U.S. exports to these projects; and (c) the states in which the U.S. exporters to these projects are located.

Country	Project Title	Fiscal Year Obligated	Study Amount ($ in $1000)	Actual U.S. Exports to date (in $1000)	U.S. States Benefitting
Algeria	*Center Pivot Irrigation	1985	46.4	27,800	CO, NE, & others
Bangladesh	Minerals Exploration	1980	11.7	340	VA, LA
China	*Tien Sheng Quiao Hydro	1980,1981,1982,1983	820.6	20,300	MA, IL, ID
	*Beijing Industrial Estate	1978	161.7	5,300	MD, ID, MI
	Coal Slurry	1983	31.8	900	CA
Dominica	*Floriculture	1983	75.5	a/	FL & others
Gabon	*Minerals Port	1979,1980,1983	457.4	1,950	NY, PA
Gulf States	Educational Training	1980	9.9	380	VA & others
Indonesia	Reactor Lab	1983	350.0	6,114	CA
	Investment Seminar	1983	15.0	5,500	OH, CA, LA
Jamaica	*Rice Production/Milling	1982	74.8	1,800	TX, AK, IL & others
	*Soybean Production	1982	23.9	250	IL, OH
	*Agribusiness	1981	27.4	1,800	FL
	*Renewable Energy	1981	b/	237	N/A
Korea	Satellite	1983	100.0	50	DC
Malaysia	*Mini-Hydro	1981	35.0	2,500	ID
	Railroad Training	1980	5.9	100	DC & others
Morocco	*Oil Shale Symposium	1980,1981	66.6	6,925	CO, OH, ID, WV, NJ, IN, MD, KY,
Nigeria	*Agribusiness	1981	93.2	74,000	AL & others
	Cooperative Health	1981	3.0	110	MD & others
	Tuna Fisheries	1980,1981	3.0	500	CA
	Immigration	1980	2.5	199	WA
	Environmental Protection	1980	4.9	10	DC
Pakistan	*Airport Projects Management	1984	450.0	5,000	CA
Peru	Cusco Airport	1982	340.0	2,000	VA
Philippines	*Illigan Steel	1981	300.0	112,700	PA & others
	*Coal/Lignite	1982,1983,1984,1985	1,313.6	3,000	PA
	Airports/Airways	1981,1982	465.3	4,347	VA, NY, AZ, MD
	Telecommunications	1983,1984	703.0	1,600	
Sri Lanka	Irrigation	1980	4.9	389	DC. VA & others
Thailand	*Mae Moh Transmission	1980,1981	403.3	11,642	MO, CT, MA, NY
	*Ao Phai Coal Generation	1981,1982, 1985	420.3	200	NJ
	*Lignite and Oil Shale	1980,1981,1983,1984	369.9	31,400	OH, IL, MA, PA, CA
	*Don Muang Airport	1984,1985	500.0	4,200	UT
	*Pipeline and Gass	1977	200.0	55,000	TX, LA & others
Trinidad/ Tobago	*Computer/Taxes	1980	2.3	330	DC, NY
Tunisia	Sra Ouertane Phosphate	1982,1984,1985	1,600.0	9,800	FL, CA
	Dairy Project	1980,1982	153.1	1,700	VT, ID, WI
	*Date Project	1984	0 c/	36	TX
Turkey	*Agribusiness	1982,1983	167.0	110,000	MN & other farm belt states
	*Highway Maintenance	1981	6.7	3,200	TX, OH, MN, CA
Uruguay	Biomass to Ethanol	1980	216.5	40	VA
Venezuela	*Solid Waste Management	1980	32.7	37,000	TX, MI, IL, TN, AL, NJ, WA, PA
			9,869.8	549,609	

* Profile included in "Profile of Successful Projects"

a/ U.S. exports of materials soon after investment finalized
b/ No disbursement to date
c/ $40,000 TDP grant has been reimbursed

As indicated in the previous table, TDP studies have far reaching benefits to U.S. exports. The following are suppliers of goods and services to projects on which TDP financed studies over the last five years.

U.S. PRIVATE SECTOR EXPORTERS
(Exporters to projects on which TDP financed feasibility studies)

Services Suppliers

Airways Engineering Corporation (VA)
Bechtel Corp. (CA)
Browning Ferris International (TX)
Burns and Roe (NJ)
D.C. Associates (DC)
Davy McKee (OH)
Dravo Engineering (PA)
General Electric Company (CT)
Jacobs Engineering (CA & FL)
I.S. Joseph (MN)
Kaiser Engineering(CA)
LEMCO (MO)
A.D. Little (MA)
Louisiana State University (LA)
McDaniel Erection Company (TX)
Meta Systems (MA)
Morrison Knudsen (ID)
Multinational Agribusiness Systems (VA)
Performance Associates (CA)
Perini Corporation (MA)
Planning Research Corporation (VA, NY)
Raymond International (CA)
(WI)
Resource Development Associates (CA)
Sargent Irrigation (NE)
Science Applications Inc. (CO)
Soros Associates (NY)
Stanley Consultants (IA)
Taylor Cross Group (AR)
Teleconsult (DC)
U.S. Engineers and Consultants (PA)

Goods Suppliers

Abey Jetways (VT)
Ag Pro Inc. (TX)
American Conveyor Company (FL)
Babcock and Wilcox (OH)
Bailey Controls (OH)
Blaw Knox (PA)
California Pellet Mill (CA)
Cargill (IL)
Caterpiller Tractor (IL)
Cummins Diesel (OH)
Dane Corp. (OH)
Digital Equipment (MA)
Dresser Industries (IN)
Dempster (TN)
Electromatics (NY)
Ford Motor Company (KY)
Freightliner (WA)
A.P. Green (MO)
S.A. Healy (IL)
Josepn Heil (AL)
Hill Manufacturing (PA)
Holstein-Friesian Assoc. (VT)

Hyspan Precision Products (CA)
Ingersoll Rand Company (OH)
International Harvester Co. (IL)
Johnson Ecolotech (NJ)
Koehring Manufacturing Co. (OH)
Kravat Coal Company (OH)
Long Airdox Company (WV & NJ)
McLellan Equipment Company (CA)
Minnesota Mining and Manuf.
Mitchell Building (TX)
Morrison Knudsen (ID)
Motorola (AZ)
New Idea Company (OH)
Omnivac Company
Pebco (KY)
Power Technology Inc. (NY)
Reedrill Manufacturing (TX)
Rice Mach Company (WA)
Robbins Machine Company (WA)
Terex Corporation (OH)
Tippens Machine and Manuf. (PA)
Vibra Screw Inc. (NJ)
Westinghouse Electric Corp. (PA)
Wilcox Electric Company (MO)
World Wide Sires (CA)

EXAMPLES OF SUCCESSFUL TDP PROJECTS

In order to further explain the interrelationship between the foreign aid which TDP provides by financing feasibility studies and the U.S. trade which follows, here is a brief description of some of our successful projects:

Thailand - Lignite and Oil Shale Production

- -- In FY 80-81 TDP financed $370,000 in studies done by AER Enterprises (N.J.) and Dravo (Pittsburgh, PA) on increased oil shale and lignite production.
- -- Subsequently, the Thais purchased about $30 million in U.S. equipment, primarily Terex dump trucks (Ohio) and Caterpillar Tractors (Illinois).

Thailand - Power Transmission Line

- -- In FY 80 and 81, TDP financed $403,349 in studies by LEMCO (MO) to expand a major electrical transmission network.
- -- Subsequently LEMCO Engineers received $11.6 million in design contracts.

Thailand - Airport

- -- In FY 84 and FY 85, TDP financed a $500,000 study by T.A.M.S. (New York) to expand the Bangkok International Airport.
- -- The study proposed loading bridges for the airport which led to a $7 million contract for loading and docking equipment from Abex/Jetway Division of IC Industries (Utah).

Jamaica - Rice Production

-- In FY 82 TDP financed a $75,000 study to develop a joint venture between a U.S. firm and the Jamaican Government to construct a rice mill and farm.

-- The project has now begun. Mitchell Building (Texas) and Rice Mach (Arkansas) have sold $1.1 million in construction services and milling equipment. $700,000 in farm equipment has been ordered from John Deere (Illinois).

Jamaica - Soybean Production

-- In FY 82 TDP financed a $24,000 study to grow soybeans.

-- The project is now under way; 1,000 acres in soybeans were planted in 1984. The U.S. has exported $250,000 in farm equipment from John Deere (Illinois) and combines from New Idea Company (Ohio).

Costa Rica - Strawberry Farm

-- In FY 85, TDP financed a $50,000 study carried out by the American Society of Agricultural Consultants (ASAC) to identify investment and export opportunities in the Caribbean Basin.

-- The ASAC team identified strawberry growing as a high priority. Subsequently, Food Processing Consultants (California) invested in a strawberry farm and within a year were exporting strawberries to the United States for the U.S. winter market. ASAC estimates that approximately $200,000 in equipment will also be exported to this project from the U.S.

Venezuela - Solid Waste Management

-- In FY 80, TDP financed a $32,681 study by Westinghouse Sanitation Systems (Maryland) to improve the solid waste management system in Maracaibo.

-- Subsequently, Browning Ferris (Texas) received a five year contract worth $13.6 million for its services in managing and improving the system; and then a $40.6 million contract to provide similar services to Caracas. In addition Browning Ferris arranged the purchase of $13.9 million in equipment from the U.S. Principal suppliers were International Harvester (Illinois); Ford Motors (Michigan); Dempster (Tennessee); Freightliner (Washington); and Hill Manufacturing (Pennsylvania).

Morocco - Oil Shale

-- In FY 80, TDP financed a $66,574 symposium to assist Moroccan officials in choosing technology for processing of oil shale.

-- Subsequently, Science Application (Colorado), Kaiser Engineering (California); Davy McKee (Ohio), and Morrison Knudsen (Idaho) received $5.8 million in contracts for design work and construction of a test station. A number of other U.S. firms provided $1.125 million worth of equipment.

Tunisia - Dairy

-- In FY 80 and 82, TDP financed $153,000 in technical assistance by Land-O-Lakes (Minneapolis, Minnesota) and Delphi Research (D.C.) to upgrade Tunisia's dairy industry.

-- The Holstein Friesian Association (Vermont, Wisconsin) subsequently shipped 1000 head of breeding cattle ($1.2 million).

Tunisia - Phosphate Production

-- In FY 82 and 83, TDP financed $600,000 in studies by Jacobs Engineering (Florida and California) to develop the Sra Ouertane Phosphate mine.

-- Jacobs Engineering and Bechtel Corporation (California) received an additional $9.8 million contract for engineering and supervisory construction work.

Turkey - Highway Maintenance

-- In FY 81, TDP financed a $18,000 survey of equipment requirements for maintaining Turkey's roads.

-- As a result, Minnesota Mining & Manufacturing (Minnesota); Koehring Manufacturing (Ohio), and other U.S. firms won $3.2 million in contracts.

Turkey - Agribusiness

-- In FY 82 and FY 83 TDP financed a $167,000 analysis of the agribusiness sector in Turkey. A key component was to identify markets for U.S. soybeans, grain and feed grain.

-- Following these surveys, the U.S. in 1984 exported $105 million of barley, corn and soybeans to Turkey for the first time in several years. The U.S. Feed Grain Council and the American Soybean Association attributed this breakthrough to the TDP study and TDP financed exchanges of U.S. and Turkish agribusiness experts.

Algeria - Irrigation Project

-- In FY 85, TDP financed a $50,000 study by Western Agri-Management (Colorado) to develop modern center pivot irrigation farms.

-- Western Agri-Management was subsequently awarded a $27 million contract to develop and manage this project.

Gabon - Port Development

-- In FY 80 and 83, TDP financed $457,000 of studies of the dredging and development of a port in Gabon.

-- Thereafter, Soros Associates (New York) and others have received nearly $2 million in contracts for further engineering work. Raymond Kaiser (Houston, Texas) and the Perini Corporation (Massachusetts) are part of an international consortium that has been selected to construct the port. Final contracting has been delayed as a result of the recent sharp decline in oil prices.

China - Hydropower Project

-- In FY 82, TDP financed a $440,000 study by Harza Engineers (Illinois) on a major hydropower project.

-- U.S. firms have sold $20.3 million in equipment, including tunnel boring machines from Robbins Machine Company (Washington), Morrison Knudsen (Idaho) and S.A. Healy (Illinois); Caterpillar (Illinois) also sold $5.5 million in trucks.

China - Industrial Park

-- In FY 84, TDP financed a $162,000 study on developing an industrial park in the Zhuhai special economic zone.

-- The Chinese have now purchased a $3 million compressor engine factory from National Industrial Services, Inc. (Missouri); Morrison Knudsen Corporation (Idaho) has received a $2 million contract to ship and assemble the plant.

Pakistan - Airport

-- In FY 84, TDP financed a $450,000 study by Bechtel (California) concerning the development of Pakistan's civil airports.

-- Bechtel subsequently received a $8 million contract to manage the country wide airport program.

Philippines - Illigan Steel Plant

-- In FY 81, a TDP grant of $300,000 enabled U.S. Steel Consulting Engineers (Pennsylvania) to win an $8 million contract to study the expansion and modernization of the Illigan Steel Plant.

-- U.S. firms are selling up to $105 million in equipment and services to this project. Blaw Knox (Pennsylvania) sold a $52 million tandem cold mill and drilling equipment; Tippens Machine (Pennsylvania) sold $16 million in hot mill equipment, and U.S. Steel Consulting Engineers received $7 million in consulting contracts. U.S. Steel estimates that this project means 4000 man hours of employment to U.S. workers.

Promising Projects

In addition to the previous projects, we are closely monitoring a number of studies on projects to which there is a strong chance of U.S. exports being generated in the near future. This table summarizes these projects:

TDP PROJECTS: POTENTIAL EXPORTS

Project Description	Amount of Study	Exports Projected	Location of Potential Suppliers
1. Taiwan Mass Transit Potential export of 48 train units and related equipment	$320,000	Up to $500 million for for train units and related equipment.	PA KY
2. China Xinhua News Agency-Updating major news agency	$350,000	Approximately $40 million for computers & communition equipment.	MA FL IL DC TX CA PA NY WI IL
3. China Shenzhen Airport International airport for Special Economic Zone	$350,000	Approximately $200 million in construction contracts.	MO CT WI NY FL GA DE LA NM IL OH
4. Peru Cobalt Development	$400,000	$60 million in mining and milling equipment	WI CO
5. Costa Rica Telecommunications Development of rural cellular phone network	$ 75,000	$36 million in cellular equipment	IL VA TX FL
6. Guatemala Electric Power Electric Load Dispatch & Communications Center	$225,000	$13 million for equipment and communications ware.	IL CA TX MI
7. Columbia Telecom. Modernization	$500,000	$80 million in telecommunications equipment.	NY CA MA VA
8. Dominican Floraculture For marketing exotic flowers	$ 75,000	$300,000 in seed and supplies	FL

Taiwan Mass Transit

- In FY 85, TDP financed a $320,000 seminar carried out by the U.S. Taiwan Transit Group (New York) aimed at exposing Taiwanese officials to U.S. mass transit technology.
- The members of the U.S. Taiwan Transit Group feel optimistic that its members will win an award for 48 train units. The Group is confident that this initial procurement will be followed by additional exports. Total exports could be as high a $500 million--Westinghouse (PA), General Electric (PA), General Signal (KY), Transit America/Budd (PA) all stand a strong chance of providing this equipment. Another reason for optimism is that engineering members of the group have already received a contract for engineering and planning services.

China Xinhua News Agency

- In FY 1986, TDP financed a $350,000 study now being carried out by Phoenix Associates (Maryland) to modernize China's major news agency.
- The chances are strong the study will lead to the procurement of approximately $40 million in computers, telecommunication, and related equipment from the United States. The potential supplies include Wang (Massachusetts); Digital Equipment Corporation (Massachusetts and DC); Equatorial Communication (California); I.T.T. (New York, Illinois); Harza

Corporation (Florida); Intecom (Texas); Delta Data (Pennsylvania); AT&T (Illinois, Wisconsin).

China Shenzhen Airport

-- In FY 1985, TDP financed a $800,000 study carried out by Parsons-Lockheed International (California) on developing an international airport in the Shenzhen Special Economic Zone.

-- This is a one billion dollar project, with potential U.S. exports estimated at $200 million. Possible U.S. suppliers include Wilcox Electric (Missouri); General Electric (N.Y.); Caterpillar (Illinois). Transact International (Ohio); Hobart Brothers (Ohio); Tow Tractor, Inc. (Ga.); Byerly Aviation, Inc. (Ill.); Krauss Hines, (Conn); Wallard Equipment, (Florida); Garsight, (N.Y.; La.); Northwestern Motor (Wisc.); Devore Aviation, (N.M.)

Peru Cobalt

-- In FY 1984, TDP financed a $400,000 study carried out by Bechtel (California) to extract cobalt from the waste of an iron ore mine.

-- Should the project go forward, Bechtel anticipates $60 million in exports in the form of mining and milling machinery. Potential suppliers include Allis-Chalmers (Wisconsin); Denver Equipment Company (Colorado).

Costa Rica Telecommunications

-- In FY 1984 TDP financed a $75,000 study carried out by Communications Corporation International (CCI) on developing a rural cellular phone network in Costa Rica.

-- CCI estimates that this study could generate $36 million in sales of cellular equipment; prime suppliers include Motorola (Illinois); General Electric (Virginia); AT&T; Northern Telecom (Texas) and Astronet in (Florida).

Guatemala Electric Power

-- In FY 1983, TDP financed a $225,000 study carried out by Harza Engineering (Illinois) for an Electric Load Dispatch and Global Communication Center in Guatemala.

-- The project will be financed as part of a $65 million World Bank loan. Harza estimates that some $13 million in exports of microwave systems, load dispatch equipment, transducers, generators, and computers by such firms as Motorola (Illinois); Harris (California); Collins (Texas); Control Data (Minnesota), and General Motors.

Colombia Telecommunications

-- In FY 1985, TDP financed a $500,000 study carried out by Arthur D. Little, (Massachusetts) on modernizing Colombia's telecommunications system.

-- Should the Government of Colombia adopt the study's recommendation, U.S. exports could total $80 million; prime potential exporters include AT&T (New York) Harris (California), GTE (Massachusetts), and COMSAT (Virginia).

Dominican Floraculture

-- In FY 1983, a TDP reimbursable grant to the Caribbean Basin Corporation (DC) helped finance a study carried out by the Traverse Group (Michigan) of the production and export marketing of exotic flowers.

-- CBC has a joint venture partner, a local grower who will supply land and manage the project. CBC equity and borrowing of $300,000 will be used primarily to purchase new stock from a Florida nursery as well as equipment, fertilizer and pesticides from U.S. suppliers.

Regional Areas of Concentration: Caribbean Basin, China

We plan to continue to give two geographic areas special attention: The Caribbean Basin and China. Both regions are of significant commercial and strategic importance to the United States. TDP has done much to foster trade and investment in these areas. I should note that in the Caribbean Basin we have established a special program to identify agribusiness as well as a unique effort to identify investment opportunities. In China, we have evolved into what many U.S. firms consider to be the most aggressive trade promotion program in the U.S. Government.

Caribbean Basin

Operating in the Caribbean Basin has been a particular challenge for TDP. Due to a lack of project finance, there are relatively few "mega projects," such as airports and hydropower facilities in which TDP is actively involved elsewhere in the developing world. We therefore have developed an approach in the Caribbean Basin where we (a) target on relatively smaller projects which may qualify for project finance from such sources as the World Bank and (b) co-finance studies with U.S. investors so as to help attract investment to this critical region. Our principal criteria for financing these investor studies (which we refer to as Reimbursable Grant Agreements (RGAs) are that the investor must have both technical experience and equity; that the project itself must also be an export market for U.S. goods and services; and that, if the investment proceeds, TDP will be reimbursed for its grant.

The following table charts our progress in the Caribbean Basin.

1981

Antilles Manpower Assessment & DM*	2,000
Jamaica Agro Industry DM*	9,900
Jamaica Coal Conversion DM*	9,950
Jamaica Agri Tour Orientation	17,920
Jamaica Renewable Energy Workshop	20,000
Jamaica Coal Conversion	100,000
Panama Coal Transshipment	100,000
TOTAL	$259,770

1982

Jamaica Crop Rotation RGA	47,810
Panama Coal Methanol Review	7,163
Belize Electricity Transmission	172,000
Jamaica Coal Conversion	355,600
Belize Kenaf RGA*	96,860
Jamaica Rice Production RGA	75,000
Panama Coal RGA	500,000
TOTAL	$1,254,433

1983

Belize Electricity TRansm. Add On	95,000
CBI UNIDO Projects	100,000
Costa Rica Cellular Telephones	75,000
Costa Rica Fuel & Feed RGA*	69,124
Dominica Water RGA*	139,327
Dominica Floriculture RGA*	75,465
Guatemala Electric Load Dispatch	225,000
St. Lucia Geothermal	350,000
TOTAL	$1,128,916

1984

Jamaica Winter Vegetable	123,288
Dominica Water Loading Facilities RGA	164,021
Costa Rica Fuel & Feed RGA (add-on)	18,352
Guatemala Shrimp Farming RGA	80,221
Panama Airport DM	6,000
Costa Rica Seafood Investment RGA	117,545
COCESNA (Cen. Amer.) Reg'l Air Nav.	62,200
L. American Housing Conf. (CB portion)	47,810
TOTAL	$ 619,437

1985

Costa Rica Container RGA	20,400
Costa Rica Western Agri Mgmt RGA	85,000
Costa Rica Seafood RGA	126,576
Dom. Republic Lockwood RGA	91,365
Dom. Republic Energy RGA	9,860
Dom. Republic Mining	200,000
Dom. Republic Pres de Boba	34,000
Dom. Republic Sugar Cogen	7,382
Dom. Republic Cement	7,200
Grenada Hotel RGA	50,000
Honduras Hydro	530,000
Jamaica Bechtel RGA	60,000
Latin America Housing	100,000
Netherlands Ant. Tourism & Industry	102,739
Trinidad Cellular Radio	6,419
Trinidad Pulp & Paper	12,560
C.R., D.R Agribusiness Project Dev.	360,000
UNDP	1,225
TOTAL	$1,804,726

1986
(as of 3/31, Projected Obligations for FY 86)

COCESNA Reg'l Air Navigation (add-on)	5,000
Dom. Republic Cement	140,000
Dom. Republic Light Manufac. DM*	6,685
Dom. Republic Light Manufac. Study	100,000
El Salvador Coffee Pulp DM*	1,920
Grenada Hotel	30,000
Grenada Tourism	48,600
Haiti Winter Vegetables RGA*	75,000
Honduras Telecommunications	350,000
Honduras Water	500,000
Jamaica Telecommunications DM*	17,100
Panama Telecommunications	300,000
Trinidad Pulp & Paper DM*	1,690
Trinidad Cellular Telephone	5,175
Trinidad Solid Waste DM*	9,961
TOTAL	$1,591,131

DM = Definitional Mission
RGA = Reimbursable Grant Agreement

China

Regarding China, TDP has become actively involved in what many consider to be the world's largest potential market. We have focused our program on projects which stand the highest possibility of being financed and leading to U.S. exports, most of these projects are therefore included in China's five year plan. Our most active projects in China are:

TDP CHINA PROJECTS

Studies Completed

1. Guangdong Province Dairy Plant (China-Agro) - $44,000
2. Tianshengqiao Hydropower (Harza) - $400,000
3. Silicon Materials (Stearns Catalytic) - $100,000
4. Maanshan Wheel and Tire (Rust Engineering) - $200,000
5. Zhuhai Industrial Park (M.K. Ferguson) - $162,000
6. Shenzhen Airport (Parsons/Lockheed) - $800,000

Studies Underway

1. Yuxian Coal Gasification (Kaiser/Lummus)- $750,000
2. Shanjiasi Heavy Oil Reservoir (SAIC) - $280,000
3. Huangling Coal Mine (Kaiser/Consolidation Coal) - $550,000
4. Maanshan Energy Conservation (IIEC) - $250,000
5. Capital Hospital (American Hospital Supply) - $200,000
6. Automotive (General Motors) - $200,000
7. Xinhua News Agency (Phoenix Associates) - $350,000

Projects on Which Grant Agreements are Signed and Competitive Selection Process Underway

1. Meishan Multichannel Carrier Equipment - $410,000
2. Xian High Voltage - $450,000
3. Wujing Trigeneration - $600,000
4. Shanghai Solid Waste Disposal - $250,000
5. Shanghai Corn Fermentation - $425,000
6. Shanghai Cement Grinding Plant - $150,000
7. Shanghai Petroleum Coke - $325,000

Future Strategy

Experience has shown that TDP is most effective when it is responsive to the host governments' high priority major capital projects and pursues those that the government is most interested in completing. In this regard, in FY 1985-1986, TDP adjusted its portfolio to concentrate on agribusiness, telecommunications and hazardous waste management projects. It is fair to project that TDP will be active in these sectors in 1987. These are three very different and very critical development sectors which have in turn diversified the kinds of U.S. firms supported by TDP. TDP will maintain this diverse selection of projects to ensure that as many elements of the U.S. business community as possible benefit from the program.

TDP also highlights several "major" countries where the development plans and financial capability suggest that the prospects for a number of projects reaching implementation are good. During FY 1987, TDP anticipates significant opportunities to foster trade, investment and development in Turkey, Colombia, Indonesia, Thailand, India and China. Given the potential magnitude of China's market, a significant portion of the operations budget will be dedicated to supplying that market.

On a regional level, TDP will be actively engaged in promoting U.S. investment throughout the Caribbean and Pacific Basins in a manner consistent with the Administration's stated priorities. Similarly, TDP will work to increase U.S. support for public and private projects in sub-Saharan Africa.

The TDP approach toward project development will continue to respond to those development objectives of a country which also represent significant trade and investment opportunities for U.S. firms. While we can project with some confidence those countries whose economies will often support major projects, we will continue to operate in a highly flexible fashion, responding to commercial opportunities and adjusting to the economic realities of FY 1987 which will, in the final analysis, determine the projects funded.

Future

As we look to the future, we plan to continue with the approach described in this testimony. We are committed to continue keeping TDP a small, streamlined, results-oriented organization. We hope that the past and anticipated results of our efforts to foster trade and development will continue to receive your Committee's support.

REIMBURSEMENT BY AMERICA BIDDERS

Mr. **Obey**. Thank you. I will try to get done by 3:00.

Let me ask you this; in light of Gramm-Rudman, which as I indicated earlier has sort of leeched out questions of substance from the legislative process, have you given any thought to requiring reimbursement by successful American bidders, especially if a company gets up to $5 million to $10 million?

Mr. **Holmes**. We have, and here's the problem. The problem is that all of our competitors are moving money out on a grant basis. If we asked for reimbursement from a firm that gets the grant to do the work in a developing country, the country that is actually working with the firm is going to assume the U.S. firm will bill the country back higher on follow-on work. It puts us at an uncompetitive position. I would prefer to be in a position where everybody agreed internationally that these kinds of programs were going to be reimburseable.

However on these large-scale public sector projects, like the dams, that's tough to do. Nevertheless, some of the smaller projects, in fact about 25 percent of our work, are cost-sharing, reimburseable agreements with U.S. firms, where we go 50/50 with them and we try to get our 50 back. We are even trying to do it now with the big construction companies.

We are doing a deal with Bechtel in Turkey, where the Turks plan to take their public power stations, privatize them, put them under private ownership, and we are cost sharing with Bechtel on a 50/50 basis the feasibility study on that project. Bechtel's interest is that they want to run the project and take equity. If they go ahead, we will get our 50 percent back.

DETERMINING PRIVATE SECTOR NEEDS

Mr. **Obey**. What kind of institutional arrangements, mechanisms, do you have for determining what the private sector needs are?

Mr. **Holmes**. They are really several. One, of course, is the private sector. For U.S. government/private sector initiatives to succeed in whatever form they take, the government has to listen to the private sector and get them to identify and implement projects. It is pretty much an open door in our office.

Secondly, we have staff that are out in the field closely working with the American private sector and developing country governments.

Thirdly, the relationship of the U.S. Government and the U.S. embassy to these other ministries provides us with tremendous insights as to where these countries are going to put their project finance. That is generally how we operate.

INVESTMENT IN MIDDLE INCOME COUNTRIES

Mr. **Obey**. With what has been happening in oil prices, you would think some countries would have a fair amount of money, middle income countries, would have a fair amount of money to be investing in infrastructure projects. Are you doing anything to anticipate any requests or opportunities of that nature?

Mr. HOLMES. We sure are. In fact, there is a provision in the law that actually encourages TDP to operate in non-AID countries. Fifty percent of our work is in non-AID countries. Colombia and Turkey in particular are countries that we are targeting. They have project finance and that is what is amazing in this world right now. Very few countries have such financing.

Mr. OBEY. I just met with a number of people from Ecuador over the lunch hour. I would not suggest you talk to them.

ASSISTANCE TO CHINA

The fiscal 1987 presentation suggests that a significant portion of your operational budget will be devoted to supplying the market in China. People are going to be asking a number of questions. What financial data leads you to assume that China is going to be a better market than many other less developed countries?

Why should we be expending taxpayers' money to develop markets in a Communist state and to date, what specific payoffs have been received from your operations in China?

Mr. HOLMES. In terms of data, if there is any program that we are truly well organized in and is probably the toughest, is in China. The way we operate is we meet with the Chinese twice a year. We try to determine which projects they plan to finance in their five year plan. We verify their projections in meetings with the U.S. Embassy, other PRC ministries, and U.S. businesses there. We also coordinate with the World Bank and try to tap into the projects that the bank is going to finance.

With a lead time of about three years between when the initiation of a TDP-financed study and actual follow-on, we can now demonstrate results. The other reason I think we are on target is that we are concentrating on the projects that we know the Chinese have to construct. Usually we try to concentrate on the projects that are model projects they want to replicate elsewhere.

Let me try to answer your second question. In terms of an appropriate use of taxpayers' dollars, there are some that think, and I agree, that China is the largest potential market in the world. Our foreign competitors are getting a big piece of that market at our expense. The critical stage in capturing a market overseas is doing the planning. We are the only U.S. Government agency that is financing the planning contracts of these big projects in China.

We must be doing something right because we are now starting to find our foreign competitors coming to us, asking us how they can organize themselves along our lines.

We see a return. What is the return? The earliest project we did in China was a hydropower project called the Tien Sheng Qiao hydropower project. We put $400,000 into planning that project, and U.S. firms received $20 million in follow-on contracts. They received a series of contracts, not one big contract. One year there were a little purchases here, and the next year, purchases there, on and on.

We are optimistic. The second project was a project in electronics. This was very quick. We put about $100,000 in a study. The Chinese purchased $8 million worth of equipment from U.S. firms identified in the TDP study.

TDP is succeeding there.

STABILITY OF INVESTMENT IN CHINA

Mr. OBEY. On China, I don't know what is going to happen after Deng. We are so consistently wrong in China. First of all, we backed Chiang Kai-shek until we had driven any other responsible leadership possibilities right out the window. Then we stripped ourselves of any people in the State Department who knew what China was really about, thanks to Senator McCarthy, in that vicious period. Then when the Soviets in China began to develop strong differences, lower level people in the government would see those cracks but they couldn't convince people at the higher levels of government that was in fact occurring. We missed picking up on that.

We missed in understanding that somebody like Deng with quite different views than others was going to come to power or Time Magazine put the wrong fellow on their cover.

What happens if he goes out the window tomorrow and they have another double reverse? Where does that leave you?

Mr. HOLMES. There are a lot of people that are more knowledgeable than I am on China, but I'll take a stab at responding to your question. In the some 15 times I have been to China in the last four years to put together the TDP program, there has been one consistent thing that has impressed me about China. I am optimistic about the future, because they are in the process of selecting their leadership down to kind of a second, third, and fourth tier in their government. The people in power are the ones who are selecting these people at lower levels who share their views.

I really believe that because of that phenomenon, as much as almost anything else, that when there is a transition of power due to age or whatever, these people will be in place to continue his policies. I am starting to see the counterparts at my level. They are very committed to what is going on.

The second reason is pure economics. For China to develop, to meet its energy needs alone, and to meet minimum foreign exchange requirements, it is going to have to become more and more private enterprise based. You go to a place like Shanghai, which is just unbelievable to see, and they are moving in the private enterprise direction.

I don't think it is going to be very easy to stop that. There is a real force underway, and the force is self interest as much as anything else.

Mr. OBEY. That is a good answer. I agree the force is probably self interest. The problem is that so often people don't follow their self interests.

Mr. HOLMES. That is right.

INVESTMENT VS. EXPORT GENERATION

Mr. OBEY. Let me ask you two other questions. In your statement you say that since fiscal 1980, the Trade Development Program has leveraged $20 million in foreign aid so as to generate at least a half a billion dollars in U.S. exports from 30 states. You also say that by the close of 1985, you managed a total of 325 projects costing about $55 million. Your statement also shows this program has received approximately $86 million since 1980.

Can you explain to me why those numbers aren't in conflict?

Mr. HOLMES. I am a little confused on the $86 million.

Mr. OBEY. So am I. I don't have the page number.

Mr. HOLMES. Let me give you the basic numbers and we will see if they are in conflict.

We have received from FY 81 through FY 85 approximately $55 million in funds. On top of that, I would say we received annually between $1.5 and $2.0 million in operating expenses over those five years. Therefore, the combined total of operating and program expense gets you close to $60 million. Of that $60 million, we have evaluated $20 million worth of projects which primarily occurred in fiscal years 1980, 1981, and 1982. Of the $20 million in projects that we evaluated, we estimate TDP studies led to $500 million in exports. The 325 projects, on which we conducted feasibility studies have occurred since 1980. If that doesn't confuse you, nothing will.

LEVEL OF EXPORTS PER PROJECT

Mr. OBEY. How much have you received, how much have you spent, what do you have on hand, and do you know the level of exports from those projects?

Mr. HOLMES. We don't know all of the exports because the only projects we have evaluated have been fiscal years 1980, 1981 and 1982. If you look at my testimony on page three, I have a table there that will take you through it.

For 1980, 1981 and 1982, you are talking about roughly $17 million. Obligated in program and operating expenses. About $13 million of which has actually gone into the feasibility studies.

In sum, the FY 80, 81, and 82 program funds and some FY 83 and FY 84 program funds totaled $20 million which has helped generate $500 million in exports.

As John pointed out, the reason we haven't evaulated other studies more recently is because it takes about three years to see some results. We evaluated our 1983 projects this year, and it is just too early to measure exports. Of these projects on page six, most of these projects we have done individual profiles on, to show you exactly what we have done, what States have benefited. We can even take it back to the city, although we did not put the cities on the profiles.

This represents the guts of the program, what has worked and what hasn't.

IMPACT OF FEASIBILITY STUDIES

Mr. OBEY. Why don't you expand on that for the record, to make sure it is tied down? What I am trying to get at is your statement says you have generated "X" amount of exports. Can you really say that? Wouldn't it be more accurate to simply say rather than the fact that you generated it, to simply say there were a certain level of exports made for projects which this program has financed? How do you know some of that wouldn't occurred even without your operation?

Mr. HOLMES. We used an independent expert to evaluate the impact of our studies. We asked the evaluator to determine from U.S. firms if their sales would have occurred without TDP support.

What we got almost consistently was that the sales were attributed to TDP financed studies I think on some of these projects, U.S. firms might have been able to tie them down without TDP support, but in the bulk of them, particularly the situations where foreign competitors stepped in with grants to the Thais or Malaysians for example and where TDP was told that if TDP doesn't offer a grant, the Thais will have Canada, for example, to do the planning—in those cases. It is pretty clear there that there was no chance a U.S. firm would have received the planning contracts.

I can give you one example of this kind of situation. Let me go back to Thailand again. The Japanese, the Dutch, the Americans competed to plan an airport in Bangkok. We felt we had secured the deal for U.S. firms. We offered $500,000 for a study to be done by Tippets-Abbett-McCarthy-Stratton (TAMS), which is an engineering firm. After going back and forth with the Thais, the Thais said they wanted two studies. We said, we will do one study, you do the other study. We assumed there were two factions. One for U.S. firms, the other for non-U.S. firms.

Our study recommended in addition to the American firm doing the project management for the airport, which is a tremendous U.S. export item, the study also recommended that the Thais go to a firm in the United States called Abex, which is based in Utah, to buy loading terminals. Subsequently they bought $7 million worth of loading terminals from Abex. That is not serendipity. I really believe there is a cause and effect there.

At your suggestion, Mr. Chairman, I am also attaching for the record a summary of the evaluation undertaken by the TDP evalutor regarding U.S. exports forstered as a result of TDP studies. This study concentrates on FY 80–82.

Yet I also think in some cases I ought to modify the word "generate."

Mr. Obey. Okay.

Mr. Holmes. Can I add one last thing?

Mr. Obey. Sure.

Mr. Holmes. In terms of China, we are also active in Taiwan, for those that may be asking that question. We have got some very good projects there.

Mr. Obey. Okay.

Mr. Holmes. Thanks.

Mr. Obey. Thanks.

[Information to be furnished follows:]

UPDATE OF PROJECTS FUNDED BETWEEN FY 1980 AND FY 1982 BY THE U.S. TRADE AND DEVELOPMENT PROGRAM

This update reports the results of a review of projects funded in FY 1980 (last evaluated in late 1983 and early 1984) and of projects funded in FY 1981 (last evaluated in early summer 1983). The results of the review of the FY 1980 and FY 1981 projects were then consolidated with those derived from the recent evaluation of projects funded in FY 1982 (completed in February 1985). The totals thus reflect the export results for projects first funded during the first three years of TDP operations, FY 1980-1982.

The key finding of this update is that actual exports related to projects funded in FY 1980 and FY 1981 have increased from some $73 million in the first evaluation to $316 million in this one. Adding projects first funded in FY 1982 gives a grand total of $433 million of exports that have taken place or are under contract. The list of identifiable U.S. suppliers of such exports now consists of 27 providers of services and 44 exporters of goods.

TDP net obligations between 1980 and 1982 totalled $11.4 million on 124 projects. Adding amounts obligated in FY 1979 and from FY 1983 through May 6, 1985, yields a total funding of $18 million for these projects.

Between FY 1980 and FY 1982, TDP funded 124 different projects with $11,846 thousand. The total number of projects was derived by combining all obligations for the same development project during the three-year period.

A few of these projects were initially funded in FY 1979 in amounts totalling $422 thousand. About 25 have received additional funding since the end of FY 1982, totalling more than $6.1 million. Adding these sums produces a grand total of $17,983 thousand obligated for the 124 projects since FY 1979.

Original obligations have been corrected in the process of updating both for some upward adjustments and for amounts subsequently deobligated. On the whole, the FY 1980-1982 figures reflect actual disbursements, while the figures for subsequent years reflect obligations, much of which has yet to be disbursed.

These projects could lead to more than 7½ billion dollars of U.S. exports over a twenty-year period. More than $433 million has already taken place or is under contract. An additional $1.6 billion is possible within the next five years.

Aggregating all the actual and foreseeable U.S. exports related to projects funded by TDP between FY 1980 and FY 1982 yields a grand total of $7,581 million.

The total includes $433 million in exports that have already taken place, are under contract, or have received firm U.S. export credit financing. The remainder—$7,148 million—consists of those possible exports that could be identified and quantified. Nearly $1.6 billion could occur within the next five years; the remainder would be exported in later years.

The estimate of export possibilities is surrounded by uncertainties that have been described in earlier evaluation reports. Elements of both overstatement and understatement are inherent in such estimation.

While realizing possible exports will depend on the foreign exchange value of the dollar, the kind of financing available, and other competitive considerations, increases are very likely. It should be noted that actual exports related to projects funded in FY 1980 and FY 1981 were reported at $73 million in the first evaluations. The current update—only a year or two later—has raised that total to more than $316 million. Such an increase suggests that the actual export total for these projects (and for those first funded in FY 1982) should continue to increase substantially, even though all the possibilities may not be realized. It lends confidence to the judgment that possibilities will be translated into actual exports, though the degree to which this occurs will depend on unpredictable circumstances.

The actual and potential export total is more than 420 times net total TDP obligations for projects funded in FY 1980 through 1982. Actual exports are 24 times such obligations.

The effectiveness of the TDP program can be measured very simply by the multiple that related exports bear to the sums expended by the program.

The grand total of potential related U.S. exports is 422 times total TDP disbursements in FY 1980-1982 plus obligations for these projects in subsequent years.

The multiple for relating total obligations to actual exports is 24.1. It is noteworthy that this multiple has increased substantially since the first evaluations. They were undertaken approximately two years after the end of the fiscal year in which the project was first funded. A year or two later, the actual export figure has multiplied and the multiple has increased accordingly. Subsequent updates should continue to show substantial increases in actual exports and in the multiple.

Twenty-seven U.S. suppliers of services and forty-four U.S. suppliers of goods could be identified as having made actual sales.

Twenty-seven U.S. suppliers of services were identified as having already signed contracts as a result of projects funded by TDP between FY 1980 and FY 1982. They are widely scattered over 17 states. A significant portion of the U.S. engineering firms that operate internationally are represented, for the most part under contracts for final engineering and supervision of major projects. Most of the firms on the list have been funded by TDP to undertake feasibility studies. In many cases, such funding helped the firm to become involved in a project that led to a services contract. Several have invested in and are managing small projects.

Forty-four U.S. firms were identified as suppliers of goods needed in projects for which TDP funded studies at an earlier stage. These firms tend to be more concentrated geographically in 16 states where U.S. production of machine tools, specialized machinery, and heavy transportation equipment is centered. Midwestern states—Ohio, Illinois, and western Pennsylvania—are well represented, as well as the New York-New Jersey area and Texas.

The list of goods suppliers ranges from well-known major manufacturers such as Ford, Caterpillar, and Ingersoll Rand to small and medium-sized firms—note Bailey Controls, Hill Manufacturing, and Hyspan Precision Products.

A fourth of the projects accounted for all the actual exports. Thirty-eight percent of total obligations were directed to these projects.

Thirty-one projects accounted for all of the exports that could be identified as related to studies funded by TDP during the FY 1980-1982 period. Seven of them subsequently received additional funding. Actual exports related to most of these projects should increase substantially over the next five years. The possibility of such additional exports could be identified and quantified for half of these projects. The total of such possibilities ranges between $822 million and $1.3 billion.

Another 14 projects offer the possibility of $450 million or more in U.S. exports over the next five years.

An additional 14 projects are still moving toward the implementation stage. Five were first funded in FY 1982. Some have been delayed by political changes, others by difficulties in arranging financing. Most of them have required further feasibility studies that have recently been completed or are still in process. Possible exports within five years range between $447.5 million and $573.5 million.

In only four cases was it possible to quantify possible exports related to these projects over a longer time frame, though in most cases the projects either are likely to be expanded or closely related new projects are apt to be initiated. For the four projects alone, possible exports in the period 5-20 years hence are estimated at between $580 million and $710 million.

A further 17 projects have been delayed, and significant related U.S. exports are likely to occur only after another five years or so has elapsed. Thereafter, they could lead to $4.5 to $5 billion in U.S. exports, 1000 times TDP obligations to date for these studies.

Seventeen projects funded in the FY 1980-1982 period have encountered significant delays in implementation. They are thus unlikely to lead to U.S. exports for five years or so.

In most cases, very large investments are required for implementation. For some, the delays are related to declining prices for petroleum and other minerals. The feasibility of these projects depends on better demand and higher prices for the proposed stream of products. In other cases, the country is experiencing difficulties in raising funds, both internally and externally. Nevertheless, all of these projects were found to be feasible once prices recover to expected levels. They are thus likely to be implemented at a future date.

Once implementation begins, the possible value of related U.S. exports would be very large. Three projects could lead to U.S. exports on the order of $1 billion or more. Aggregate possible exports for twelve of the projects are quantified in a range of $4.5 to $5 billion. Should such exports occur, they would equal 1000 times the sums obligated by TDP to date on this group of projects.

Related exports could not be identified for 62 projects that accounted for one eighth of TDP funding of projects initiated during the FY 1980-1982 period.

Evaluation of 62 projects—half of the number funded during the three-year period—failed to reveal any related U.S. exports. However, these projects received only $2,085 thousand, 11.6 percent of TDP obligations for projects for which funding was initiated between FY 1980 and FY 1982.

Most of this group of projects were exploratory, involving low-cost definitional missions that found insufficient basis for TDP funding of feasibility or pre-feasibility studies. Only six of them were funded at the $100,000 level or higher. The remaining 56 received average funding of about $20 thousand per project. The 62 projects for which related exports have occurred, or for which a realistic possibility exists that related exports will occur, have been funded on the average at almost 13 times that level—more than $256 thousand each.

WEDNESDAY, APRIL 9, 1986.

HOUSING INVESTMENT GUARANTY PROGRAM

WITNESS

PETER M. KIMM, DEPUTY ASSISTANT ADMINISTRATOR FOR HOUSING AND URBAN PROGRAMS

Mr. OBEY. We will now turn to the Housing Investment Guaranty program. Last year the Administration proposed the first step toward eliminating this program by requesting a $45 million limit on guaranteed loans. This request was a drop from a level of $160 million in '85. Congress after sequestration provided a $145.5 limit on guaranteeing loans.

This year the Administration is requesting no funding for the loan guaranty program. It is requesting a $10 million contribution to the Housing Program to the loan reserve account, which is necessary due to debt renegotiations in Third World countries.

Mr. Peter Kimm, Deputy Assistant Administrator for Housing and Urban programs, Bureau for Private Enterprise will testify. Go ahead.

Mr. KIMM. *I will just summarize my statement briefly.* What we are talking about is a shift away from guaranty financing to other sources of financing for AID's shelter and urban efforts.

The President's broad policy initiative on federal credit policy seeks to reduce the role of the federal government in the capital market. And in particular, to curtail federal loan and guaranty programs on the basis that minimal intervention by the government in the capital markets will contribute to a more efficient allocation of resources.

The decision to terminate guaranty authority does not mean that AID is abandoning the shelter and urban sector. Rather, it means we will use other resources, such as ESF, Development Assistance and PL 480. And we look upon fiscal year '86 as a transition year to further explore the alternatives that are available.

We believe that AID has the skills and experience to make an important contribution to the shelter and urban sector, based on 20 years of experience, which has produced a cohesive unit of AID professionals with solid support from the private sector, including experts from the U.S. capital markets, cooperative organizations, universities and private firms.

There are certain principles that AID pursues in the shelter and urban program field, which I would like to review briefly.

The first is that the world urbanization process is a major development consideration, and that most LDCs do not now have an adequate strategy or institutional base to deal with this problem.

We believe that external donor financing should be used to influence policy change, to strengthen institutions, and to train LDC personnel.

The private sector should have the major responsibilities for constructing housing. The government should do those things which the private sector cannot readily do, principally provide land tenure, infrastructure, credit policies.

When such services are provided it should be affordable, and the costs of them should be recovered.

Authority to raise revenue and plan and implement on the part of the government should be devolved to local levels of government.

On a final, and I hope optimistic note, we believe that following these principles, the world shelter problem is solvable, and that everybody in the world can have a decent, if bare bones, place to live.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kimm follows:]

STATEMENT OF PETER M. KIMM BEFORE THE

COMMITTEE ON APPROPRIATIONS, SUBCOMMITTEE ON FOREIGN OPERATIONS,
HOUSE OF REPRESENTATIVES
March 20, 1986

I am here today to discuss the Administration's request to seek no new housing guaranty authority (HG) in FY 87 and a $10 million appropriation to replenish the HG reserve fund. Also I am here to seek, in principle, the cooperation of this Committee for an orderly transition in the way AID finances its housing and urban programs. This will involve a shift away from guaranty financing to other sources of financing for AID's shelter and urban efforts.

Termination of the Housing Guaranty Program

The President's broad policy initiative on federal credit policy seeks to reduce the role of the Federal Government in the capital markets. The reason that the Executive Branch is striving to curtail federal loan and guaranty programs is that this Administration believes that minimal intervention by the government in the free operation of capital markets contributes to more efficient allocation of resources by the markets and thereby enhances growth of the economy. Moreover, it believes that intrusion into capital markets with use of federal guaranty power absorbs larger amounts of private savings and thus may contribute to an increase in interest for private borrowers.

OMB Circular A-70 (revised) contains the implementing directives for moving more of federal lending activities into the private sector. Its provisions call for assumption by the private banks of a greater share of the risk and the phasing down of 100 percent U.S. Government guaranties. Since there is a limited market for HG paper without 100 percent U.S. Government guaranty, the Administration is seeking no HG loan authority for FY 1987 and beyond.

The Future of AID's Shelter and Urban Programs

The decision to terminate the guaranty authority does not mean that AID is abandoning the shelter and urban sector. Rather, it means that AID will use other resources, such as Economic Support Funds, Development Assistance and PL 480 local currency. FY 1986 will be used as a transition year to explore those alternatives where more flexible financial arrangements can be developed that in the longer term will lessen the impact of LDC debt rescheduling on the U.S. Government.

The use of guaranty authority has always had certain limitations. The higher interest rates charged under the program, as compared with concessional interest rates for development loans, have tended to make a number of the poorer LDCs ineligible for HG assistance. All development goals pursued by the HG program have equal relevance to countries which have not been served by the HG program.

AID Expertise and Experiences

We believe that AID has the necessary skills and experience to make a lasting contribution to the shelter and urban sector. The 20 or more years of experience with the HG program has produced a cohesive unit of AID professionals. These professionals are backed by a ready core of support from the private sector, including experts from the U.S. capital markets, cooperative organizations, universities, and private firms.

Development Principles in the Shelter and Urban Sector

There are certain basic principles that have guided recent AID shelter and urban programs and that will apply equally to new programs regardless of the funding source:

-- capital financing for shelter and urban infrastructure must come principally from LDC domestic financing resources.

-- external donor financing should be used to influence policy change, to strengthen institutions, and to train LDC personnel.

-- the private sector should have the major responsibility to build housing; with the government's emphasis on providing that which the private sector cannot readily provide, e.g., potable water, land tenure, roadways, etc.

-- when the government seeks to provide basic infrastructure to facilitate private housing efforts, the government should provide services which are (a) affordable to low-income families, and (b) should recover costs from such families, with costs recovered from past projects being used to finance new projects.

-- the world urbanization process is a major development consideration, and most LDCs do not have an adequate strategy or institutional base to deal with this problem.

-- authority to raise revenue and plan and implement urban investments should be devolved to local levels of government.

Prospects for Meeting Basic Human Needs

AID research has shown that if the public sector were to follow the shelter principles espoused by AID, then over time, the needs of low income families for shelter basics can be met without unrealistic increases of public expenditures in the sector.

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ROLE OF PRIVATE SECTOR VS. GOVERNMENT

Mr. **Obey**. Would you run that by me again? I want to make sure I am quoting you accurately. You said that the private sector—you felt that the private sector had the responsibility for developing——

Mr. **Kimm**. To build the housing itself. And that the principal role of government should be to provide infrastructure, to provide the wherewithal for land tenure. In many instances, the government is already the owner of large parts of land. So in that case, they could provide land.

And to provide policies that will lead to there being credit available. But that the private sector can and will build the houses.

Mr. **Obey**. I recall the very first man I ever distributed literature for when he ran for President was Bob Taft in 1952, which would shock a lot of people who know me. I went every noon hour in junior high school—I bugged out and went up on Main Street and passed out literature for him. And I peddled about 4,000—we had 10,000 in my hometown and I hit 4,000 of them with literature for him in the '52 primary against Eisenhower.

And I remember him giving a speech in junior high school in Wausau. And it was an eloquent defense of government's obligation to be involved in public housing. I do not believe we would have had public housing programs in this country if it had not been for Bob Taft in those years. He made it safe for responsible conservatives to be for it. Interesting, in light of what is happening today, domestically at least.

ALTERNATIVE URBAN SHELTER PROGRAMS

Mr. Kimm, if the Administration is successful in eliminating the Housing Loan Guaranty program, could you tell us precisely what AID programs will replace those urban shelter programs in developing countries?

Mr. **Kimm**. No, Congressman, I cannot tell you precisely because we are in the process of examining the alternatives that are available. This year PL 480 Title I was amended to provide authority to make local currency loans to the private sector. We believe that some of that could be assigned to private sector housing programs.

Mr. **Obey**. How many homes would be constructed under these programs next year? Any idea?

Mr. **Kimm**. I do not. I am sorry. We are not far enough along and anything I gave you would just be an early estimate.

Mr. **Obey**. Any idea how much AID has budgeted for those other programs in '87?

Mr. **Kimm**. The total Title I is $1 billion. The total that could be used for the private sector—all private sector, not just housing—is $100 million. I would think housing might get $10 million of that $100 million.

USE OF DA AND ESF

Mr. **Obey**. Okay. In view of the need to reduce the budget for AID, does it make sense to use appropriated funds, such as Development Assistance and ESF for shelter instead of Housing Guaranty funds, which are primarily from private lenders?

Mr. Kimm. Well, we have reached that conclusion when you consider all of the ramifications, the impact on the credit programs and so on.

Mr. Obey. I have to say, I think it is a quaint conclusion to reach, but okay.

CAPITAL MARKET FINANCING WITHOUT GUARANTEES

Is there any evidence that capital markets in the U.S. or in developing countries will provide financing for shelter programs which reach poor people without guarantees? Is there any specific documentation you can point to to demonstrate that?

Mr. Kimm. Well, there are two parts to your question. The first, financing from the United States, I would say the answer is no. That financing will not come from the United States for low income people in developing countries without a guaranty.

Within the capital markets of the developing country itself, those capital markets are young and feeling their way. But I think that there will be increasing percentages of those capital markets allocated to low-cost housing.

Mr. Obey. I have got two other questions for the record, and I think that is it.

Unless you have got anything else you want to add.

Mr. Kimm. No, sir. I appreciate the opportunity.

Mr. Obey. Okay, thank you.

Mr. Kimm. Thank you.

Questions for the Record

The Housing Guaranty Programs

Mr. Obey. Mr. Kimm, if the Administration is successful in eliminating the housing loan guarantee program, will you tell us precisely what AID programs will replace these urban shelter programs in developing countries?

How many homes will be constructed under these programs next year?

Answer. Specific sources have not been identified at this time. However, I expect some ESF, Development Assistance and PL 480—generated local currency could be spent for this purpose. We do not have details for such a program in FY 87, however, in FY 86, approximately 10,000 shelter solutions and infrastructure connections will be provided under existing ESF generated local currency funded shelter programs in Central America. Smaller ESF funded activities are taking place in East Africa and in the Near East.

Mr. Obey. The Housing program utilizes and interacts with private sector financial institutions—that is one of its strong points. Will these new AID programs for urban shelter have a direct linkage with the private sector?

Answer. AID's housing activities will continue to focus on maximum use of the indigenous private sector to finance and build shelter projects. Developing country savings and loan associations and development finance institutions are now recognizing that it is possible to make a profit by providing shelter to poorer people. All the self-help construction activity is carried out by community and private organizations, of course. However, the linkage to U.S. financial institutions as lenders would not continue after termination of the guaranty approach.

Mr. Obey. The administration is requesting $10.0 million in FY 87 for the Housing Guaranty reserve fund. Is this amount sufficient considering the debt rescheduling problem in many countries? Will additional funds be required in future years?

Answer. I want to make a distinction here between liquid cash assets in the reserve and overall reserve assets in the form of claims against sovereign borrowers. We do have a liquidity problem with the reserves. The $10 million [illegible] FY 87 appropriation will carry the cash assets in the Reserve Fund barely through to FY 88. Our

FY 88 budget will update this analysis and will reflect actual experience with refinancing. In the longer term, as rescheduled sovereign debts are repaid to the reserve, the reserve problems should lessen.

Mr. OBEY. If, after 1987, housing programs are financed by U.S. Government loans and grants, what will be the effect on the concessionality of these loans? Will they be more expensive to the U.S. Government? For an equivalent program, will budget authority and outlays increase significantly when the private sector is removed and the Government assumes full liability rather than contingent liability? Secretary of the Treasury Baker supports refinancing Third World debt, thereby making more capital available to the LDCs. How does the termination of the HG program affect this goal?

ANSWER. We do not propose a substantial program of U.S. dollar loans in lieu of the HG Program. Such loans would indeed be more expensive to the U.S. Government than the current guaranty program. The HG Program has leveraged over $1.5 billion in private sector loans and financed administrative and operating expenses through a fee structure with budget outlays of $40 million to date. The equivalent program using U.S. Government resources would have cost the full $1.5 billion plus all administrative and operating expenses. U.S. Government loans while of a more concessional nature than the market rate HG loans, could be onlet within the LDC financial structure to borrowers at local market rates to avoid distortions of capital markets. With regard to the availability of capital in the LDCs, we believe the primary purpose of the HG program is to finance housing in the LDCs and not to provide balance of payments support.

Mr. OBEY. The presentation document states that a new HG "refinancing program" will help reduce the reserve account liquidity problem. If this is to be accomplished by guaranteeing new private sector loans to meet claims for rescheduled debt service, rather than drawing on the reserve account, will this procedure be able to replenish the reserve fund to meet future claims against rescheduled loans?

ANSWER. A formal refinancing procedure would reduce pressure on the Reserve Fund by refinancing with a private U.S. lender debt which would otherwise result in claims to the Reserve Fund. If the full impact of reschedulings on the Reserve Fund could be avoided by such a refinancing scheme, sufficient funds would be available to meet other claims payments. Eventually rescheduled repayments will replenish the Reserve Fund.

Mr. OBEY. A number of private U.S. financial institutions and many LDCs find the HG attractive. Perhaps ways could be found for both of those parties to assume some of the costs and risks of the HG program. Do you think the private sector might offer loans *partially* guaranteed (50 or 75 percent) by the U.S. Government at an interest rate that a substantial number of LDCs could afford to finance essential housing projects?

ANSWER. Based on our experience, we believe that the HG program would not be able to continue in most LDCs if the loans were only partially guaranteed by the U.S. Government. However, we plan to look into this alternative further, and to see what opportunities exist to provide financing with a less than 100% guaranty.

FRIDAY, APRIL 18, 1986.

PEACE CORPS

WITNESS

LORET MILLER RUPPE, DIRECTOR, PEACE CORPS

Mr. OBEY. Today the committee will complete its hearings on the Administration's fiscal year 1987 appropriations request with review of four remaining programs. We begin with the Peace Corps. Before we do, let me simply say, Ms. Ruppe, that I have had the highest regard for the job that you have done and the way you have done it. I think it is very easy to be a member of Congress or the director of an agency or the director of a program in an era of expanding resources and expanding expectations; it is very tough to do the same thing in an era when the expectations may not be shrinking but our resources certainly seem to be—at least the resources that we seem willing to apply to the public sector—and under these circumstances, I think you have done a very good job of dealing with your responsibilities and I am glad that you are here.

Why don't you simply go ahead and say whatever you want to say. I will try to keep this short and sweet. I will have to announce ahead of time that I am trying to be in two places this morning. I have to be in another subcommittee whenever I get a call, so I will at some time have to simply leave. If no member of the committee is here by that time, I will simply have to drop what I am doing and go over to be with Bill Natcher's subcommittee for a bit.

So, let me simply say that the lack of any serious questioning this morning is probably a function of two things: Number one, the fact that I think the committee is across the board from that end to this end very supportive of what you are trying to do; and secondly, the fact that Gramm-Rudman has really squeezed substance out of a lot of discussions on Capitol Hill as well as elsewhere. And so any squeeze that is applied to your program will not be applied for substantive or policy reasons, but simply because of lack of available resources.

Go ahead.

OPENING STATEMENT

Ms. RUPPE. Thank you very much, Mr. Chairman. I am submitting a formal statement for the record. I would like to synthesize a little bit of it.

I am pleased to be here today to discuss with you Peace Corps fiscal year 1987 budget request and to bring you up to date on our current activities and future plans.

I have submitted my formal statement for the record, but I would just like to highlight some things I think would be of interest to you, then I will welcome any questions you may have.

Our funding request for $126.4 million will permit us to recruit about 2600 new volunteers. We will be able to support a total of 5,000 volunteers. This number is substantially less than we had planned, based on our pre-Gramm-Rudman level of $130 million. Earlier projected levels for both FY 86 and FY 87 called for 6,000 volunteers each year.

As you know, last year was an outstanding year for Peace Corps. We were able to field over 3400 new volunteers, 200 more than we anticipated. We had a volunteer strength of over 6200 volunteers, an eight year high for Peace Corps. In addition, Congress added an amendment to the Peace Corps Act calling for Peace Corps to expand to a strength of 10,000 volunteers.

Last year we also began a new program in Guinea, Africa. This year we plan to begin placing volunteers in Equatorial Guinea. No new country entries are planned for fiscal year 1987.

In October of last year and on into this year, Peace Corps is proudly celebrating its 25th anniversary of grassroots service. In major cities across the nation, returned Peace Corps volunteer groups, world affairs councils, and local universities and colleges are organizing symposiums honoring our silver anniversary. The major theme of these events is: "U.S. partnership with the developing world." In September, at the close of this year long celebration, the papers and reports resulting from the symposia will be analyzed and the analysis presented to the President and Members of Congress. This report will focus on how Peace Corps can better meet the future challenges of the developing world.

The symposia are attracting literally thousands of Americans—5,000 in Ann Arbor, Michigan; 1,000 in Boston; 400 in San Francisco; 500 in Seattle, and hundreds more in Louisville, Dayton, Miami, and Portland. There are more to come, including events in Wisconsin, New York, Denver—where I am going today. The grand finale is planned here in Washington, where in September former volunteers from all over our nation will converge for a major conference to be concluded by an event at the Kennedy Center.

Our 25th anniversary is only one of our achievements this year. This year we will have also begun training teams of volunteers to work in our Africa Food Systems Initiative. You recall that last year I announced this new long term, grassroots program directed at helping to alleviate hunger on the African continent. This program will ultimately benefit up to 12 African nations.

Teams of from five to ten volunteers will work at the village level to help develop sound farming practices. They will help host country farmers, most of whom are women, maximize the use of scarce water and energy resources, improve soil fertility and adopt better preserving and marketing procedures. Others will also be working in nutrition programs.

You will be pleased to know that the preliminary studies are now complete and, once the volunteers are trained, they will begin working in three pilot countries—Mali, Zaire, and Lesotho. We have had to delay the program in Niger, our fourth country, until the beginning of fiscal year 1987.

Peace Corps has also been moving forward on our programs in Latin and Central America and our Asia and Pacific Regions. Although we have had to reduce the level of new volunteers this year, from 3200 to 2600, we are working hard to place our volunteers where they will have the greatest impact. Where their efforts, coupled with that of their host country counterparts, will reach the most people.

We are also expanding our collaborative efforts with USAID, other federal agencies, and private voluntary organizations in order to provide the maximum support for our volunteers.

Right now, in 62 countries, there are nearly 6,000 volunteers at work. They are working in grassroots projects directed at improving health services and agriculture production. They are working to help create water resources and sanitation improvements. They are teaching rural poor to establish wood lots and fishery projects, and to establish and maintain micro-businesses, many of which are agriculture-related and not only provide income, but improve the nutrition of the area residents.

We can measure the impact some of these volunteers are having when we see that in the Philippines last year, the work of 70 volunteers serving in rural health projects directly affected almost 7,000 people in 68 villages.

In Haiti, one of our newest programs, last year the work of seven volunteers traveling regionally, establishing pharmacies and immunization projects, directly affected 85,000 people in 450 rural communities.

These are but two examples of our volunteers' impact. My written statement contains many more, as does our congressional budget presentation, which you received earlier this year.

Our current and past volunteers have made a great impact on the peoples in the barrios and villages of the developing world. Now we are finding that more and more Americans want to be a part of this American success story. During January of 1985, we put out an appeal for agriculture volunteers needed to serve in Africa. Over 20,000 Americans of all ages responded. The last week in February of this year, over 5,000 Americans called, interested in Peace Corps service.

It should also be noted that more and more older Americans are looking to Peace Corps for ways to serve their country and to share their expertise. The average age of our volunteers is now 30. We have more than a few that are 70 years of age or older.

Our recruitment and marketing operation is probably so successful because it is being run by one of your former members, Arlen Erdhal of Minnesota.

As I stated earlier, my formal testimony contains a more thorough explanation of Peace Corps activities and details on each of our many programs.

I would like to take just one minute to reiterate something I have said over and over again, and that is, the problems we address continue to persist. Hunger, malnutrition, infant mortality, poverty, illiteracy and inadequate health care have not disappeared. In fact, since 1967, the populations in many of the countries we serve have almost doubled. During that same time, the number of Peace Corps volunteers we have in the field has nearly halved. We are making inroads, but there is still much more to do.

I have personally met and talked with Americans from all walks of life these past months while attending the forums honoring our volunteers and our 25th anniversary. We are also reconnecting with literally thousands of our former volunteers. From all of these sources, the message is the same—if we are to have peace in this world, it must be done at the grassroots, the village level. We must help the people in the developing world to become a population of haves rather than have nots. But more importantly, I believe that we must show them that America is a nation of caring people, not representative of what they see on Dynasty and Dallas.

Peace Corps has been on the frontiers of America's development assistance efforts. It is our volunteers who have been there, living with the people in the villages, speaking their languages and showing them the way toward a better life for themselves and their children. It is Peace Corps that is proud to make a difference.

Mr. Chairman, in closing, I want you to know we appreciate the support this committee has given to our volunteers and programs, and I look forward to sharing with you the materials we are gathering during this important year—materials on how we can better meet the needs of the future.

Thank you.

[The statement of Ms. Ruppe follows:]

PEACE CORPS

STATEMENT

OF

LORET MILLER RUPPE

DIRECTOR

THE PEACE CORPS

BEFORE

THE HOUSE APPROPRIATIONS

SUBCOMMITTEE ON FOREIGN OPERATIONS

April 18, 1986

806 Connecticut Ave., N.W. Washington, D.C. 20526

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE: I AM PLEASED TO BE HERE TODAY TO TESTIFY ON BEHALF OF OUR FISCAL YEAR 1987 APPROPRIATIONS REQUEST. THIS PRESENTATION SUPPORTS THE ADMINISTRATION'S REQUEST TO THE CONGRESS FOR $126.2 MILLION FOR PEACE CORPS FOR FISCAL YEAR 1987. THE REQUESTED LEVEL IS $3.8 MILLION BELOW THE FISCAL YEAR AUTHORIZATION OF $130 MILLION. I WOULD ALSO LIKE TO BRING YOU UP-TO-DATE ON OUR RECENT ACTIVITIES AND PLANS FOR THE COMING FISCAL YEAR.

THIS IS A VERY IMPORTANT YEAR FOR PEACE CORPS. WE ARE IN THE MIDST OF CELEBRATING OUR TWENTY-FIFTH ANNIVERSARY OF GRASS ROOTS SERVICE TO THE DEVELOPING WORLD. IN MAJOR CITIES ACROSS OUR NATION, LOCAL SPONSORS SUCH AS UNIVERSITIES, WORLD AFFAIRS COUNCILS AND RETURNED PEACE CORPS VOLUNTEER GROUPS ARE ORGANIZING SYMPOSIA WHICH FOCUS ON HOW PEACE CORPS CAN BETTER MEET THE CHALLENGES OF THE FUTURE. THE MAJOR THEME IS: "THE U.S. PARTNERSHIP WITH THE DEVELOPING WORLD."

IN SEPTEMBER, AT THE END OF PEACE CORPS' YEAR-LONG TWENTY-FIFTH ANNIVERSARY ACTIVITIES, THE PAPERS AND RECOMMENDATIONS RESULTING FROM THE SYMPOSIA WILL BE ANALYZED. I AM LOOKING FORWARD TO SHARING THIS ANALYSIS WITH THE PRESIDENT AND MEMBERS OF CONGRESS. WE ARE CONFIDENT THAT THE INSIGHTS AND INNOVATIVE APPROACHES RESULTING FROM THESE FORUMS WILL LEAD TO AN EVEN MORE PRODUCTIVE SECOND TWENTY-FIVE YEARS FOR PEACE CORPS.

OVER THE PAST TWENTY-FIVE YEARS MORE THAN 120,000 AMERICANS HAVE SERVED THE PEACE CORPS IN OVER 92 DEVELOPING NATIONS WORLD-WIDE. THESE AMERICANS NOT ONLY HELPED IMPROVE THE WAY OF LIFE FOR THE PEOPLE THEY SERVED, BUT THEY RETURNED TO OUR NATION TO SHARE THEIR INSIGHTS AND EXPERTISE WITH THEIR FELLOW AMERICANS. ALL FIFTY STATES HAVE BENEFITED FROM THE EXPERIENCES OF RETURNED VOLUNTEERS.

SINCE I LAST TESTIFIED BEFORE YOU I AM PLEASED TO TELL YOU THAT PEACE CORPS HAD INCREASED THE NUMBER OF VOLUNTEERS SERVING THROUGHOUT THE DEVELOPING WORLD. AT

THE END OF FISCAL YEAR 1985 WE HAD OVER 6,200 VOLUNTEERS WORLD-WIDE. IN FISCAL YEAR 1987 WE PROJECT TO BE ABLE TO SUPPORT APPROXIMATELY 5,000 VOLUNTEERS. THIS NUMBER IS SUBSTANTIALLY LESS THAN WE HAD PLANNED BASED ON OUR PRE-GRAMM-RUDMAN LEVEL OF $130 MILLION. EARLIER PROJECTED LEVELS FOR FISCAL YEARS 1986 AND 1987 CALLED FOR 6,000 VOLUNTEERS EACH YEAR.

LAST YEAR WE FIELDED OVER 3,400 NEW VOLUNTEERS. THIS WAS 200 MORE THAN I PROJECTED IN LAST YEAR'S TESTIMONY. IN FISCAL YEARS 1986 AND 1987 PEACE CORPS HOPE TO FIELD APPROXIMATELY 2,600 NEW VOLUNTEERS EACH YEAR.

VOLUNTEER PROJECTS

THE NEW VOLUNTEERS GOING INTO THE FIELD NEXT YEAR, WILL WORK IN PROJECTS DIRECTED AT IMPROVED HEALTH, AGRICULTURE, ENERGY CONSERVATION, AND OUR NEW AFRICA FOOD INITIATIVE. CURRENT VOLUNTEER PROGRAM DISTRIBUTION INCLUDES:

516 VOLUNTEERS ARE WORKING IN HEALTH RELATED FIELDS, INCLUDING RURAL HEALTH CLINICS, ORAL REHYDRATION, COMBATTING CHILDHOOD DISEASES (CCD), AND TRAINING OF HOST COUNTRY NATIONALS IN BASIC HEALTH TECHNIQUES INCLUDING IMPROVED NUTRITION.

1,747 VOLUNTEERS ARE WORKING IN AGRICULTURE PROJECTS, INCLUDING HOME GARDENS, IMPROVED FOOD PRODUCTION METHODS, ANIMAL HUSBANDRY, AND COMMUNITY DEVELOPMENT.

77 OF THEM ARE SERVING AS PLANNERS, DESIGNERS AND SUPERVISORS OF WATER RESOURCE PROJECTS INCLUDING SMALL DAMS, SPILLWAYS AND IRRIGATION CANALS IN RURAL AREAS.

138 VOLUNTEERS WORK IN AREAS OF RENEWABLE ENERGY AND SAFE ENERGY CONSERVATION.

1,684 VOLUNTEERS ARE WORKING IN EDUCATION RELATED AREAS, INCLUDING VOCATIONAL EDUCATION, SECONDARY EDUCATION, MATH, SCIENCE, AND TEACHER TRAINING.

IN ADDITION TO THEIR MAJOR PROJECTS MOST OF THE CURRENT VOLUNTEERS ALSO HAVE SECONDARY PROJECTS DIRECTED AT HELPING TO IMPROVE THE LIVES OF THE PEOPLE IN THE AREAS THEY SERVE.

TO GIVE YOU AN EXAMPLE OF THE IMPACT THESE VOLUNTEERS HAVE ON THE PEOPLE IN THE DEVELOPING WORLD, LAST YEAR, IN OUR PHILIPPINES PROGRAM, THE WORK OF 70 RURAL HEALTH VOLUNTEERS DIRECTLY AFFECTED 20,400 PEOPLE IN 68 VILLAGES. THEIR EFFORTS INDIRECTLY AFFECTED OVER 40,000 PEOPLE LIVING IN 130 COMMUNITIES.

THE 50 VOLUNTEERS WORKING IN AGRICULTURE RELATED PROJECTS IN THAT COUNTRY DIRECTLY AFFECTED ALMOST 7,000 PEOPLE IN 23 RURAL COMMUNITIES. THEY INDIRECTLY AFFECTED 13,800 PEOPLE IN 46 COMMUNITIES.

ANOTHER GOOD EXAMPLE OF OUR VOLUNTEERS' IMPACT WOULD BE OUR HAITI PROGRAM. PEACE CORPS ENTERED HAITI FOR THE FIRST TIME IN 1983. LAST YEAR, SEVEN PEACE CORPS VOLUNTEERS WORKING IN RURAL HEALTH, TRAVELED REGIONALLY THROUGHOUT HAITI WORKING IN RURAL IMMUNIZATION AND PUBLIC HEALTH PHARMACIES. IMMUNIZATION VOLUNTEERS ARE IMPLEMENTING A NATIONWIDE VACCINATION PROJECT, ESTABLISHING "COLD-CHAIN" INSTALLATIONS IN RURAL DISPENSARIES. COMMUNITY PHARMACY VOLUNTEERS INCREASE THE SUPPLY OF LIFE-SAVING DRUGS TO RURAL AREAS AND ADVISE AND TRAIN OTHERS IN PHARMACY MANAGEMENT. THE WORK OF THESE SEVEN VOLUNTEERS DIRECTLY AFFECTED 85,000 PEOPLE IN 450 RURAL COMMUNITIES. THEIR EFFORTS HAD A CALCULATED INDIRECT AFFECT ON 2 MILLION PEOPLE THROUGHOUT THE FOUR REGIONS OF HAITI.

PEACE CORPS VOLUNTEER PROGRAMS IN HAITI AND THE PHILIPPINES WERE SOMEWHAT DISRUPTED WITH THE RECENT EVENTS IN THOSE TWO COUNTRIES. HOWEVER, I AM PLEASED TO TELL YOU THAT IN HAITI ALL FORTY VOLUNTEERS ELECTED TO REMAIN IN THE COUNTRY AND CONTINUE THEIR VALUABLE WORK.

IN THE PHILIPPINES, OUR LARGEST PROGRAM, WHERE 316 VOLUNTEERS ARE SERVING, ONLY THREE ASKED TO LEAVE. IN THAT COUNTRY, PEACE CORPS VOLUNTEERS ARE WORKING IN TWELVE OF THE THIRTEEN PHILIPPINE REGIONS. OUR LARGEST NUMBERS OF VOLUNTEERS ARE CONCENTRATED IN THE POOREST REGIONS--VESAYAS AND BICOL. WE ARE LOOKING FORWARD TO WORKING WITH THE NEW FILIPINO AND HAITIAN GOVERNMENTS TO INCREASE PROGRAMS IN THOSE COUNTRIES.

UNITED NATION'S VOLUNTEERS (UNV'S)

IN ADDITION TO OPERATING INDIVIDUAL COUNTRY PROGRAMS, PEACE CORPS SPONSORS THE UNITED NATIONS VOLUNTEER PROGRAM. WE CURRENTLY HAVE 34 VOLUNTEERS SERVING IN THIS PROGRAM. IN FISCAL YEAR 1987 PEACE CORPS WILL RECRUIT AND FUND TWENTY NEW VOLUNTEERS THROUGH THE UNITED NATIONS VOLUNTEER PROGRAM. THE UNV PROGRAM ALLOWS AMERICAN VOLUNTEERS TO PARTICIPATE IN A MULTI-NATIONAL VOLUNTEER FORCE SERVING EITHER UN AGENCIES OR MINISTRIES OF HOST COUNTRY GOVERNMENTS. AMERICAN VOLUNTEERS SERVING WITH THE UNV PROGRAM OFTEN SERVE IN COUNTRIES WHERE THERE IS NO FORMAL PEACE CORPS PROGRAM. IN 1986, AMERICAN UN VOLUNTEERS ARE SERVING IN NON-PEACE CORPS COUNTRIES INCLUDING BANGLADESH, CONGO, ETHIOPIA, INDONESIA, SOMALIA, PEOPLE'S REPUBLIC OF CHINA, AND TURKEY.

AFRICA FOOD SYSTEMS INITIATIVE (AFSI)

LAST YEAR WE MOVED FORWARD ON OUR AFRICA FOOD SYSTEMS INITIATIVE. PROGRAM AND PROJECT STUDIES ARE COMPLETED AND WE ARE NOW READY TO BEGIN PLACING TEAMS OF VOLUNTEERS INTO THREE OF THE FOUR PILOT COUNTRIES: MALI, ZAIRE, AND LESOTHO. NIGER, THE FOURTH PILOT PROGRAM WILL BE INITIATED IN FISCAL YEAR 1987. AT THE

END OF THIS FISCAL YEAR WE EXPECT TO HAVE 108 VOLUNTEERS WORKING IN THE AFRICAN FOOD SYSTEMS INITIATIVE PROGRAM. OUR PROJECTED LEVEL FOR THIS PROGRAM FOR FISCAL YEAR 1986 WAS 150 VOLUNTEERS.

AS I TOLD YOU LAST YEAR, THE AFRICA FOOD SYSTEMS INITIATIVE, IS PLANNED AS A LONG-TERM GRASS ROOTS FOOD PRODUCTION PROGRAM TO BENEFIT UP TO TWELVE AFRICAN NATIONS. TEAMS OF FROM FIVE TO TEN VOLUNTEERS WILL WORK WITH AFRICAN SUBSISTENCE FARMERS (A MAJORITY OF WHOM ARE WOMEN). THEY WILL WORK AT THE VILLAGE LEVEL, USING PROVEN TECHNOLOGY APPROPRIATE TO LOCAL CONDITIONS AND CONSTRAINTS TO HELP THE AFRICANS DEVELOP SOUND FARMING PRACTICES. THE VOLUNTEERS WILL HELP HOST COUNTRY FARMERS TO MAXIMIZE EFFICIENT USE OF SCARCE WATER BY HELPING THEM CONSTRUCT WELLS, WATER LIFTING DEVICES, AND SMALL SCALE IRRIGATION PROJECTS. CROP EXTENSION VOLUNTEERS WILL HELP THE FARMERS IMPROVE GARDEN AND HIGH-YIELD CROP PRODUCTION. THEY WILL ALSO PROMOTE SOIL CONSERVATION AND INCREASED FIREWOOD PRODUCTION. OTHERS WILL HELP FARMERS TO PRESERVE, PROCESS, DISTRIBUTE AND MARKET THEIR CROPS. IN ZAIRE VOLUNTEERS WILL TRAIN TEACHERS IN THE USE OF A NUTRITION CURRICULUM FOR PRIMARY STUDENTS. WE EXPECT TO HAVE 500 VOLUNTEERS WORKING IN AFSI BY 1980 ALONE. THIS INITIATIVE CONTINUES TO BE A VERY HIGH PRIORITY FOR THE PEACE CORPS.

NEW COUNTRY ENTRIES

LAST YEAR, AS PEACE CORPS MOVED FORWARD ON ITS IMPORTANT FOOD INITIATIVE IN AFRICA, WE ALSO HAD THE PLEASURE OF ENTERING A NEW PROGRAM WITH GUINEA, AFRICA. THIS YEAR, WE PLAN TO BEGIN A PROGRAM WITH EQUATORIAL GUINEA. NO NEW COUNTRY ENTRIES ARE PLANNED FOR FISCAL YEAR 1987.

PEACE CORPS INCREASES COLLABORATIVE EFFORTS

TO BUILD BETTER PEACE CORPS PROGRAMS WE MUST CONTINUE TO BUILD OUR COLLABORATIVE EFFORTS WITH OTHER U.S. AGENCIES AND PRIVATE RELIEF ORGANIZATIONS. THIS YEAR, USAID DIRECTOR, PETER MCPHERSON AND I SENT A JOINT REPORT TO CONGRESS DETAILING LAST YEAR'S MANY SUCCESSFUL COLLABORATIVE PROJECTS THROUGHOUT THE DEVELOPING WORLD.

OF MAJOR IMPORTANCE ARE THE PROGRAMS INVOLVING RURAL HEALTH, INCLUDING THE COMBATTING CHILDHOOD DISEASES PROGRAM (CCD), POTABLE WATER AND SANITATION PROJECTS, AND FOOD PRODUCTION PROGRAMS INCLUDING SEMI-ARID GRAIN RESEARCH AND PEST CONTROL.

WE CURRENTLY HAVE INTER-AGENCY AGREEMENTS WITH THE U.S. DEPARTMENT OF AGRICULTURE, THE U.S. SOIL CONSERVATION SERVICE, THE UNITED STATES FOREST SERVICE, AND THE NATIONAL PARK SERVICE. COLLABORATIVE PROGRAMMING INITIATIVES ARE UNDERWAY WITH MAN AND BIOSPHERE (A STATE DEPARTMENT ORGANIZATION), THE INTERNATIONAL INSTITUTE FOR ENVIRONMENT AND DEVELOPMENT (IIED) (A NON-GOVERNMENT ORGANIZATION), AND THE WORLD WILDLIFE FUND.

IN FISCAL YEAR 1987 TO ENHANCE AGENCY PROGRAMMING, PEACE CORPS WILL INCREASE COLLABORATIVE EFFORTS WITH PRIVATE AND PUBLIC ORGANIZATIONS IN THE UNITED STATES AND IN THE DEVELOPING COUNTRIES WHERE OUR VOLUNTEERS SERVE.

WE PLAN EXPANDED EFFORTS WITH USAID AND OTHER FEDERAL AGENCIES AS WELL AS JOINT VENTURES SIMILAR TO OUR AGREEMENTS WITH PARTNERS OF AMERICAS AND THE LEAGUE FOR INTERNATIONAL FOOD EDUCATION. THE EFFECTIVENESS OF THE VOLUNTEERS WILL BE ENHANCED BY WORKING IN PROJECTS THAT RECEIVE SUPPORT FROM OTHERS IN THE DEVELOPMENT FIELD.

IMPROVED TRAINING

THE OFFICE OF TRAINING AND PROGRAM SUPPORT (OTAPS) WORKS CLOSELY WITH THE COLLABORATIVE PROGRAMS DESCRIBED ABOVE. THIS OFFICE ALSO PROVIDES TECHNICAL ASSISTANCE TO OUR OVERSEAS STAFF, VOLUNTEERS AND HOST COUNTRY PERSONNEL THROUGH A SMALL STAFF OF PROGRAM SPECIALISTS WHO TRAIN AND ADVISE ON PROGRAMS RELATED TO AGRICULTURE, HEALTH, EDUCATION, FORESTRY, FISHERIES (FRESH WATER AND MARINE), WATER RESOURCES, SANITATION, AND SMALL BUSINESS DEVELOPMENT.

OTAPS IS ALSO RESPONSIBLE FOR THE WOMEN IN DEVELOPMENT (WID) FUNCTIONS INITIATED BY PEACE CORPS. THE RESPONSIBILITY OF THIS OFFICE IS TO SEE THAT OUR PROGRAMS AND PROJECTS ARE DEVELOPED TO BETTER ADDRESS THE NEEDS OF WOMEN IN THE DEVELOPING WORLD. THIS INCLUDES REVIEWING AND MAKING RECOMMENDATIONS ON PROGRAMS TO TRAIN WOMEN IN THE THIRD WORLD TO SUCCESSFULLY RUN SMALL OR MICRO BUSINESSES AND IMPROVE THE WOMEN IN AGRICULTURE PROJECTS.

THE OFFICE FOR INFORMATION COLLECTION AND EXCHANGE (ICE) IS ANOTHER FUNCTION OF OTAPS. MASSED IN THIS FACILITY IS A CONSIDERABLE AMOUNT OF "HOW-TO-DO" BOOKS WRITTEN BY AND FOR THE VOLUNTEERS IN THE FIELD. THESE PRACTICAL DOCUMENTS ARE REQUESTED BY VOLUNTEERS, OVERSEAS STAFF, HOST COUNTRY GOVERNMENTS, AMERICAN UNIVERSITIES AND OTHERS WORKING IN THE DEVELOPMENT FIELD WORLD-WIDE.

BESIDES PROVIDING PRINTED INFORMATION, THE ICE FACILITY PROVIDES SERVICE TO VOLUNTEERS AND STAFF BY ANSWERING TECHNICAL INQUIRIES. TODAY, ICE ANSWERS OVER 6,000 REQUESTS PER YEAR, DRAWING ON AN INVENTORY OF OVER 500 TITLES. THE OFFICE PERSONNEL MAINTAIN CONTACTS WITH MORE THAN 250 GROUPS WORKING IN DEVELOPMENT AROUND THE WORLD.

WHAT IS MOST IMPORTANT TO NOTE, IS THAT THROUGH THE ICE FUNCTIONS, IT HAS BECOME WIDELY RECOGNIZED THAT THE INFORMATION PRODUCED BY THOUSANDS OF PEACE CORPS VOLUNTEERS WORKING IN GRASS ROOTS PROGRAMS FOR TWENTY-FIVE YEARS CONSTITUTES A UNIQUE RESOURCE FOR DEVELOPMENT.

BECAUSE ICE SERVES AS A MEANS OF COLLECTING THE BEST RESULTS OF VOLUNTEER PROJECTS AND SHARING THEM WITH OTHERS IN THE DEVELOPMENT COMMUNITY, THE WORK ONE VOLUNTEER DOES IN ONE COMMUNITY CAN HAVE A WORLD-WIDE IMPACT. FOR EXAMPLE:

- A MANUAL WRITTEN BY TWO PEACE CORPS VOLUNTEERS IN JAMAICA WAS LATER ADAPTED BY OTHER VOLUNTEERS IN LIBERIA. THAT MANUAL IS NOW USED BY THE MINISTRY OF AGRICULTURE TO TRAIN LIBERIAN FIELD WORKERS.
- AN AGRICULTURAL EXTENSION MANUAL BASED ON VOLUNTEER EXPERIENCE IN LATIN AMERICAN AND WEST AFRICA IS BEING TRANSLATED INTO CHINESE BY A STUDENT IN THE PEOPLE'S REPUBLIC OF CHINA. THE STUDENT HAD REQUESTED A COPY OF THE MANUAL FROM ICE AFTER HEARING ABOUT IT ON A SPECIAL VOICE OF AMERICA BROADCAST.

IN FISCAL YEAR 1987 ICE WILL CONTINUE ITS EFFORTS TO COLLECT INFORMATION GENERATED IN VOLUNTEER PROJECTS, TO PROVIDE MORE AND BETTER PUBLICATIONS TO MEET FIELD NEEDS AND TO PROVIDE FULLER ANSWERS TO ALL THE MANY QUESTIONS GENERATED BY OUR VOLUNTEERS.

PRIVATE SECTOR DEVELOPMENT

THE OFFICE OF PRIVATE SECTOR DEVELOPMENT (OPSD) WAS CREATED BY THE DIRECTOR OF PEACE CORPS IN DIRECT RESPONSE TO THE ADMINISTRATION'S STRONG EMPHASIS ON PRIVATE SECTOR INITIATIVES. A PRIMARY GOAL OF THE OFFICE IS TO INCREASE LEVELS

OF SUPPORT AND PARTICIPATION OF THE PRIVATE SECTOR IN CERTAIN PEACE CORPS PROGRAMS AND ACTIVITIES. THE OPSD SERVES AS THE FOCAL POINT FOR IDENTIFYING AND COORDINATING GIFTS AND CONTRIBUTIONS TO THE PEACE CORPS TO FURTHER ITS OVERALL PURPOSE AND MISSION IN DEVELOPING COUNTRIES.

CONTRIBUTIONS FROM THE PRIVATE SECTOR ARE ONE OF THE FEW MEASURABLE INDICATORS OF PUBLIC SUPPORT FOR PEACE CORPS' CURRENT AND LONG-TERM GOALS. IN ADDITION TO THE FORMAL PEACE CORPS PARTNERSHIP AND IN-KIND CONTRIBUTION PROGRAMS, A CONSIDERABLE NUMBER OF OTHER GIFTS AND DONATIONS HAVE BEEN RECEIVED BY THE AGENCY. THE MOST SIGNIFICANT EXAMPLE IS THE SERVICE PROVIDED TO PEACE CORPS MARKETING AND RECRUITMENT EFFORTS BY THE ADVERTISING COUNCIL. THE AGENCY ASSIGNED BY THE AD COUNCIL TO THE PEACE CORPS CAMPAIGN HAS DONATED $100,000 WORTH OF ITS STAFF TIME AND SERVICES. THE ACTUAL VALUE OF ADVERTISING AIRTIME DONATED ON BEHALF OF PEACE CORPS LAST YEAR AMOUNTED TO $32,964,608.00. OTHER PRIVATE SOURCES HAVE ALSO MADE CLEAR THEIR SUPPORT OF PEACE CORPS ACTIVITIES. THEY HAVE PROVIDED MATERIALS, SUPPLIED TRANSPORTATION, DONATED EQUIPMENT AND SERVICES. WE ESTIMATE THESE ADDITIONAL DONATIONS HAVE TOTALED $288,577.00 IN FISCAL YEAR 1985.

THE PARTNERSHIP PROGRAM WAS RESPONSIBLE FOR FUNDING 92 PEACE CORPS VOLUNTEER PROJECTS. THIS EFFORT INVOLVED 260 U.S. CITIZENS, SCHOOL GROUPS, CORPORATION FOUNDATIONS, CHURCHES AND RETURNED PEACE CORPS VOLUNTEER ASSOCIATIONS. $171,501.76 WAS RECEIVED IN DONATIONS AND PLEDGES IN FISCAL YEAR 1985 WITH THE AVERAGE DONATION BEING $700.00. THE AVERAGE COST OF THE PROJECT FUNDED WAS $1,885.00.

IN-KIND CONTRIBUTIONS TO THE PEACE CORPS ARE STILL GROWING RAPIDLY: TOTAL IN-KIND CONTRIBUTIONS REACHED AN ALL-TIME HIGH OF OVER $500,000.00 IN ONLY TWO FULL YEARS OF OPERATION. LAST YEAR IN-KIND CONTRIBUTIONS TOTALED $225,000.00.

IN FISCAL YEAR 1987 THIS OFFICE WILL PLACE A GREATER EMPHASIS ON EDUCATING AMERICANS ABOUT THE PEOPLE OF THE DEVELOPING WORLD AND THEIR NEEDS.

VOLUNTEER RECRUITMENT AND SUPPORT

LAST YEAR THE PEACE CORPS CHANGED THE NAME OF THE MARKETING, RECRUITMENT AND PLACEMENT STAGING (MRPS) TO VOLUNTEER RECRUITMENT AND SELECTION (VRS).

WE ARE PROUD TO HAVE THE HONORABLE ARLEN ERDAHL, FORMER CONGRESSMAN FROM MINNESOTA, AS THE NEW ASSOCIATE DIRECTOR FOR THIS OFFICE. ARLEN ERDAHL PREVIOUSLY SERVED AS COUNTRY DIRECTOR FOR JAMAICA BEFORE TAKING ON HIS NEW DUTIES.

PUBLIC AWARENESS AND VOLUNTEER RECRUITMENT ACTIVITIES WERE EXTREMELY SUCCESSFUL LAST YEAR. LAST JANUARY'S APPEAL FOR AGRICULTURE VOLUNTEERS NEEDED TO GO TO WORK IN AFRICA RESULTED IN OVER 20,000 AMERICANS CALLING TO EXPRESS AN INTEREST IN SERVING AS PEACE CORPS VOLUNTEERS.

MORE RECENTLY, DURING THE LAST WEEK OF FEBRUARY, OVER 5,000 PEOPLE CONTACTED THE RECRUITING OFFICE SEEKING INFORMATION ON BECOMING VOLUNTEERS.

PUBLIC AWARENESS HAS INCREASED DRAMATICALLY. THE PEACE CORPS AWARENESS CAMPAIGN FOCUSES ON BOTH THE GENERAL PUBLIC AND ON SPECIFIC GROUPS WITH SPECIAL SKILLS SOUGHT BY HOST COUNTRIES. INCREASED RECRUITMENT EFFORTS DIRECTED AT OLDER AMERICANS AND MINORITIES HAVE RESULTED IN INCREASED NUMBERS OF THESE VALUABLE

VOLUNTEERS. AS A RESULT OF OUR OLDER AMERICAN RECRUITMENT EFFORTS, THE AVERAGE AGE OF THE PEACE CORPS VOLUNTEER NOW STANDS AT 30 YEARS OF AGE.

LAST YEAR THE PEACE CORPS RECRUITING OFFICE HANDLED OVER 170,000 INQUIRIES. IN FISCAL YEAR 1987 PEACE CORPS WILL HAVE TO REDUCE ITS RECRUITMENT EFFORTS TO MEET THE GOALS OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985.

PLACEMENT

THE PLACEMENT UNIT OF THE VRS WAS RESPONSIBLE FOR PLACING OVER 3,400 NEW VOLUNTEERS IN FISCAL YEAR 1985. THIS REPRESENTS AN INCREASE OF 200 OVER OUR PROJECTED FIGURES FOR LAST YEAR AND COMPARES TO 2781 IN FISCAL YEAR 1984 AND 2970 IN FISCAL YEAR 1983. OUR NEW VOLUNTEER LEVEL IN 1986 AND 1987 WILL BE AN EXPECTED 2,600. THESE 2,600 VOLUNTEERS WILL BE SELECTED FROM OVER 5,300 QUALIFIED CANDIDATES.

ALL PEACE CORPS VOLUNTEER APPLICANTS ARE SCREENED THOROUGHLY PRIOR TO BEING SELECTED AS VOLUNTEERS. ONLY THE MOST QUALIFIED ARE SELECTED TO SERVE.

STAGING

BESIDES A THOROUGH APPLICANT SCREENING PROCESS, ALL VOLUNTEER CANDIDATES SELECTED TO SERVE AS PEACE CORPS VOLUNTEERS ARE SCREENED AGAIN IN THE UNITED STATES AND GO THROUGH AN INTRODUCTION TO PEACE CORPS PRIOR TO GOING OVERSEAS. MOST CANDIDATES GO THROUGH AN INTENSIVE FIVE DAY SCREENING PROGRAM CALLED CREST. THIS IS THE LEAST EXPENSIVE OF OUR TWO STATESIDE TRAINING PROGRAMS. IN KEEPING WITH THE GAO RECOMMENDATIONS OF FISCAL YEAR 1984, WE ARE CREST'ING MORE CANDIDATES EACH YEAR.

THE CREST'ING METHOD OF SCREENING AND PREPARATION IS OUR MOST POPULAR METHOD WITH HOST COUNTRY GOVERNMENTS, VOLUNTEERS, AND STAFF.

THE OTHER METHOD OF CANDIDATE PREPARATION AND TRAINING IS THE CENTER FOR ASSESSMENT AND TRAINING (CAST). THIS EIGHT DAY PROGRAM IS OUR MOST DIFFICULT AND IT PROVIDES SCREENING AND TRAINING FOR THE MOST SENSITIVE AND DIFFICULT PEACE CORPS ASSIGNMENTS.

FOR THOSE PROGRAMS THAT ARE NEITHER CAST OR CREST'D, THE CANDIDATES GO THROUGH A STATESIDE PREPARATION PROGRAM WHICH IS A THREE DAY COMPREHENSIVE STAGING THAT EMPHASIZES PRE-DEPARTURE ORIENTATION.

THE NUMBER OF VOLUNTEERS REQUESTING TO TERMINATE EARLY HAS BEEN DECLINING EACH YEAR. WE ATTRIBUTE THIS TO BETTER SCREENING AND HANDLING OF VOLUNTEER CANDIDATES THROUGH THE ENTIRE PLACEMENT STAGING PROCESS.

OUR GOAL FOR FISCAL YEAR 1987 WILL CONTINUE TO FOCUS ON THE VOLUNTEER REQUIREMENTS--TO REDUCE COST AND IMPROVE EFFICIENCY OF THE PLACEMENT STAGING OPERATION AND TO IMPROVE THE QUALITY OF THE VOLUNTEERS SENT OVERSEAS.

TRAINING

PEACE CORPS TRAINING FALLS INTO TWO CATEGORIES: NEW VOLUNTEER (PRE-SERVICE) TRAINING AND IN-SERVICE TRAINING.

MOST PRE-SERVICE TRAINING TAKES PLACE OVERSEAS, ALTHOUGH SOME SKILL TRAINING PROGRAMS (FISH CULTURE, FORESTRY, VEGETABLE GARDENING, AND SMALL ANIMAL HUSBANDRY) TAKE PLACE STATESIDE. THESE STATESIDE TRAINING PROGRAMS PROVIDE VOLUNTEERS WITH THE INTERMEDIATE LEVEL TECHNICAL SKILLS WHICH HOST COUNTRIES NEED, BUT PEACE CORPS HAS DIFFICULTY RECRUITING.

PRE-SERVICE TRAINING ALSO INCLUDES LANGUAGE INSTRUCTION IN MORE THAN 75 DIFFERENT LANGUAGES. SOME TECHNICAL TRAINING IS PROVIDED IN A VARIETY OF FIELDS SUCH AS: WELL CONSTRUCTION, PUMP REPAIR, ADULT EDUCATION, COMMUNITY HEALTH TECHNIQUES. OTHER TRAINING FOCUSES ON METHODS TO IMPROVE CATTLE PRODUCTION, RAISE SMALL ANIMALS SUCH AS RABBITS, CHICKENS, PIGS, AND BEEKEEPING.

PRE-SERVICE TRAINING ALSO INCLUDES CROSS-CULTURAL TRAINING IN HOST COUNTRY CUSTOMS. THIS INCLUDES THE COUNTRY'S HISTORY, CURRENT EVENTS, SOCIAL STRUCTURES, RELIGIONS, BELIEFS AND VALUES. VOLUNTEERS MUST LEARN THE SKILLS NEEDED TO LIVE IN SOCIETIES VASTLY DIFFERENT FROM THAT OF THE UNITED STATES.

INCLUDED IN THE PRE-SERVICE INSTRUCTION ARE ESSENTIAL SURVIVAL SKILLS. VOLUNTEERS ARE TAUGHT HOW TO HAVE A BALANCED DIET BASED ON MILLET, RICE, CORN, COU-COUS, TARO OR BREAD FRUIT, AND HOW TO PREPARE THEM WITHOUT MODERN CONVENIENCES. THEY LEARN NUTRITION, FIRST AID, AND BASIC HEALTH CARE. THEY ALSO LEARN THE ESSENTIAL ELEMENTS FOR ADAPTING TO LIFE IN THE DESERT OR NEAR DESERT IN SUB-SAHARAN AFRICA, THE MOUNTAINS IN THE ANDES OR HIMALAYAS OR ON A SMALL TROPICAL ISLAND.

THE IN-SERVICE TRAINING PROGRAM IS USED TO MEET THE VOLUNTEERS' NEEDS THAT EMERGE AFTER THEY BEGIN WORK. MOST IN-SERVICE TRAINING IS DIRECTED TOWARD IMPROVING VOLUNTEERS' TECHNICAL SKILLS AND LOCAL LANGUAGE ACQUISITION. FUNDING FROM USAID ALSO AFFORDS PEACE CORPS THE OPPORTUNITY TO TRAIN VOLUNTEERS AND THEIR HOST COUNTRY COUNTERPARTS SIMULTANEOUSLY.

PEACE CORPS IS CONTINUALLY LOOKING FOR WAYS TO BETTER TRAIN OUR VOLUNTEERS BY USING MORE EFFICIENT, COST EFFECTIVE METHODS.

IMPROVED MANAGEMENT

THE OFFICE OF MANAGEMENT ASSISTS IN THE ACCOMPLISHMENT OF AGENCY OPERATING GOALS AND OBJECTIVES BY PROVIDING MANAGEMENT SUPPORT TO DOMESTIC AND OVERSEAS OPERATIONS, AND DIRECT SUPPORT TO VOLUNTEERS AND PROSPECTIVE VOLUNTEERS IN THE AREA OF MEDICAL SUPPORT SERVICE.

IN FISCAL YEAR 1985 OUR MANAGEMENT OFFICES:

- CONTINUED TO PROVIDE AN EFFECTIVE VOLUNTEER HEALTH CARE PROGRAM, PUBLISHED NEW AND EXPANDED TECHNICAL GUIDELINES FOR OUR OVERSEAS MEDICAL STAFF, AND CONDUCTED RESEARCH IN SUCH AREAS AS: RABIES VACCINE, FILARIASIS PREVENTION, AND ADMINISTRATION OF HEPATITIS "B" VACCINE;
- REVISED THE COUNTRY MANAGEMENT PLAN HANDBOOK, WHICH PROVIDES THE FRAMEWORK FOR THE DEVELOPMENT OF COUNTRY OPERATING PLANS AND BUDGETS, AND IMPLEMENTED A COUNTRY PROGRAM REVIEW/MONITORING SYSTEM WHICH WILL PROVIDE AN ONGOING SELF-ASSESSMENT TOOL FOR OVERSEAS POSTS;
- REVISED PROCEDURES FOR HANDLING RECRUITMENT FOR OVERSEAS POSITIONS TO ENSURE PROMPT FILLING OF VACANCIES;
- FORMALIZED REVIEW PROCEDURES FOR PEACE CORPS MANUAL REVISIONS TO ENSURE COMPLIANCE WITH PROGRAM AND POLICY CHANGES;
- COMPLETED PHASE III OF OUR "OVERSEAS COMPUTER INITIATIVE" WHICH PLACED MICRO-COMPUTERS AND STANDARD APPLICATIONS PROGRAMS IN OUR POSTS OVERSEAS TO REDUCE PAPERWORK AND TEDIOUS MANUAL CALCULATIONS,

STANDARDIZED PROGRAM AND FINANCIAL DATA, AND ESTABLISHED APPROPRIATE INTERNAL CONTROLS FOR RESOURCE MANAGEMENT; AND

- CONTINUED A FOUR-YEAR REPLACEMENT CYCLE FOR OVERSEAS VEHICLES. (THE EFFECTS OF GRAMM-RUDMAN-HOLLINGS LEGISLATION HAS RESULTED IN A PLANNED FIVE-YEAR CYCLE FOR OVERSEAS VEHICLES.)

IN FISCAL YEAR 1987 THE MANAGEMENT OFFICE WILL CONTINUE ITS GOAL OF ACHIEVING EXCELLENCE IN ITS ADMINISTRATIVE MANAGEMENT SUPPORT FUNCTIONS.

PEACE CORPS REGIONAL EFFORTS
AFRICA, NANEAP, AND INTER-AMERICA

AFRICA

LAST YEAR PEACE CORPS PLACED A GREATER EMPHASIS ON AFRICA'S FOOD PRODUCTION NEEDS. WE BEGAN A NEW INITIATIVE CALLED THE AFRICA FOOD SYSTEMS INITIATIVE IN RESPONSE TO THE GROWING FOOD SHORTAGES ON THAT CONTINENT. NEXT MONTH WE WILL BEGIN TRAINING TEAMS OF VOLUNTEERS TO BEGIN WORK IN THIS PROGRAM.

IN ADDITION TO THE FOOD INITIATIVE, THE PEACE CORPS HAS 2,600 VOLUNTEERS SERVING IN AFRICA. THESE VOLUNTEERS HELP TO ADDRESS THE CRITICAL DEFICIENCIES IN OTHER AREAS SUCH AS, RURAL HEALTH CARE, REFORESTATION, COMMUNITY DEVELOPMENT PROJECTS, WATER RESOURCES AND SANITATION, MICRO-BUSINESS DEVELOPMENT, ANIMAL HUSBANDRY AND BEEKEEPING.

THESE AMERICANS ARE MAKING A POSITIVE IMPACT ON THE PEOPLE THEY SERVE. FOR EXAMPLE:

- IN BENIN: IN FORESTRY, VOLUNTEERS SET UP TREE NURSERIES TO SERVE VILLAGE NEEDS, ORGANIZED AND EDUCATED BENEFICIARY GROUPS, AND GAVE

TECHNICAL ASSISTANCE IN FORESTRY AND WATERSHED MANAGEMENT. THE PEOPLE SERVED WERE POOR FARMERS, MERCHANTS, AND HOUSEHOLDERS. ABOUT 7,500 INDIVIDUALS BENEFITTED DIRECTLY. THE NURSERIES' READILY AVAILABLE SOURCE OF FUELWOOD AND LUMBER HAS RESULTED IN A DIMINISHED EXPENDITURE OF TIME AND LABOR.

- IN THE CENTRAL AFRICA REPUBLIC (CAR): TWO AGRICULTURE VOLUNTEERS HAVE TRAINED ONE CENTRAL AFRICAN SUPERVISOR AND TWENTY-ONE EXTENSION AGENTS IN IMPROVED BEEKEEPING TECHNIQUES. THE EXTENSION EFFECT HAS INVOLVED OVER 5,000 FARMERS AND, AS A RESULT, HIGH QUALITY WAX PRODUCTION HAS INCREASED FROM 87 TO 107 TONS PER YEAR. BEESWAX IS POTENTIALLY VALUABLE EXPORT. IN THE PAST, BEESWAX WAS DISCARDED OR SOLD AT VERY LOW PRICES AND THE HONEY WAS UNDERUSED.

IN FISCAL YEAR 1987, PEACE CORPS WILL RECRUIT 1,070 VOLUNTEERS TO SERVE IN AFRICA. WE WILL CONTINUE TO PLACE VOLUNTEERS WHERE THEY CAN HAVE THE GREATEST EFFECT. THIS WILL MEAN A CONTINUOUS REVIEW OF OUR CURRENT PROGRAMS AND PRIORITY GIVEN TO ASSIGNMENTS WHERE VOLUNTEERS WILL SERVE AS CATALYST AND WHERE THEIR EFFORTS WILL HAVE A LASTING MULTIPLIER EFFECT.

INTER-AMERICA

PEACE CORPS CONTINUES TO EMPHASIZE THE INITIATIVE ON CENTRAL AMERICA (IFCA) PURSUANT TO THE RECOMMENDATIONS OF THE NATIONAL BIPARTISAN COMMISSION. IFCA ADDRESSED THE NEED FOR TEACHER TRAINING, EDUCATION, HEALTH, HOUSING, SMALL BUSINESS DEVELOPMENT IN BELIZE, GUATEMALA, HONDURAS, AND COSTA RICA.

A MAJOR PRIORITY IN BOTH OF THE CENTRAL AMERICA AND CARIBBEAN AREAS IS THE DEVELOPMENT OF AGRICULTURE AND OTHER BUSINESSES TO GENERATE INCOME, PROVIDE FOOD AND IMPROVED HEALTH AND NUTRITION, AND CREATE EMPLOYMENT.

OTHER VOLUNTEER PROJECTS IN THIS REGION INCLUDE, ENVIRONMENT EDUCATION AND MANAGEMENT, SANITATION AND INTRODUCING SIMPLE TECHNOLOGIES SUCH AS OBTAINING ENERGY FROM WIND, WATER OR SUNLIGHT.

VOLUNTEERS WORKING IN THE INTER-AMERICAN REGION ARE TRAINING THE PEOPLES OF THESE COUNTRIES TO FULLY REALIZE THEIR MOST VALUABLE RESOURCE--THEMSELVES.

THE IMPACT OUR VOLUNTEERS ARE HAVING IN THIS REGION CAN WELL BE DESCRIBED BY THE FOLLOWING EXAMPLES:

° IN GUATEMALA VOLUNTEER NURSES PERFORMED OVER 12,000 MEDICAL CONSULTATIONS, TRAINED OVER 500 HEALTH WORKERS, AND VACCINATED OVER 2,000 INDIVIDUALS.

° ONE PEACE CORPS VOLUNTEER HAS BEEN WORKING WITH 700 SMALL FARMERS IN COSTA RICA. THIS VOLUNTEER HAS HELPED THESE FARMERS ESTABLISH 25 PLANT NURSERIES FOR SPICES. IN THE SPRING OF THIS YEAR THESE FARMERS WILL HARVEST 70,000 TONS OF HIGH QUALITY TURMERIC. PEACE CORPS HAS BEEN WORKING WITH A U.S. SPICE COMPANY (MCCORMIC) IN IDENTIFYING SPICE DEMANDS. NEXT YEAR MCCORMICK WILL PURCHASE 100,000 TONS OF THE SPICE (TURMERIC) WHICH IS MORE IN DEMAND DUE TO INCREASED POPULARITY OF NATURAL VEGETABLE COLORING AND CURRY AND OTHER SIMILAR PRODUCTS.

- IN PARAGUAY, VOLUNTEERS WORKING IN HEALTH PROJECTS ADMINISTERED 22,000 VACCINATIONS, SUPERVISED THE CONSTRUCTION OF 400 LATRINES, AND INSTRUCTED 1,600 PERSONS IN ORAL REHYDRATION THERAPY.
- IN ECUADOR, HEALTH VOLUNTEERS HAVE AIDED OVER 2,000 FAMILIES IN 30 COMMUNITIES IN MATERNAL CHILD HEALTH CARE, VACCINATION CAMPAIGN, LATRINE CONSTRUCTION, FAMILY AND COMMUNITY GARDENING AND NUTRITION. INFANT MORTALITY HAS DECREASED AS MUCH AS 30 PERCENT IN SEVERAL AREAS.
- IN THE EASTERN CARIBBEAN REGION, 34 VOLUNTEERS TAUGHT 680 STUDENTS DIVERSIFIED SUBJECTS SUCH AS SCIENCE, MATH, SPANISH, BUSINESS EDUCATION, REMEDIAL READING, AUTO MECHANICS AND SPECIAL EDUCATION.

IN FISCAL YEAR 1987 PEACE CORPS WILL PLACE 680 NEW VOLUNTEERS IN THE INTER-AMERICA REGION. THE PROGRAM WILL CONTINUE TO CONCENTRATE IN THE RURAL AREAS WITH LITTLE OR NO ACCESS TO EDUCATION, HEALTH, OR TECHNICAL SERVICES. IN 1987 VOLUNTEERS WILL CONTINUE TO CONDUCT HEALTH, NUTRITION, AND SANITATION COURSES FOR RURAL MOTHERS AND TRAIN HOST COUNTRY COUNTERPARTS TO CARRY ON THIS WORK.

NORTH AFRICA, NEAR EAST, ASIA, AND PACIFIC
NANEAP

GREAT DIVERSITY IN DEVELOPMENT NEEDS EXISTS AMONG THE COUNTRIES IN THE NORTH AFRICA, NEAR EAST, ASIA AND PACIFIC (NANEAP) REGION. THEREFORE, OUR PROJECTS THERE CAN BE MORE COMPLEX AND HIGHLY TECHNICAL. CRITICAL NEEDS FOR THESE COUNTRIES INCLUDE EXPANDING AGRICULTURE PRODUCTION, INCREASING RURAL HEALTH SERVICES AND POTABLE WATER, EXPANDING SMALL BUSINESS OPPORTUNITIES, AND ENHANCING LITERACY AND PRACTICAL JOB SKILLS.

PEACE CORPS PROGRAMS IN THIS REGION ARE ALIGNED WITH EACH HOST COUNTRY GOVERNMENT'S DEVELOPMENT PRIORITIES. HOWEVER, PRIMARY PROGRAM EMPHASES ARE IN THE AREAS OF EDUCATION, AGRICULTURE, INCOME GENERATION, RURAL DEVELOPMENT, HEALTH EDUCATION, AND ENERGY.

LAST YEAR, 798 NEW VOLUNTEERS WERE ASSIGNED TO THE NANEAP REGION. IN FISCAL YEAR 1987 PEACE CORPS WILL RECRUIT 680 NEW VOLUNTEERS FOR SERVICE IN THIS AREA.

EARLIER IN MY TESTIMONY I GAVE YOU EXAMPLES OF OUR VOLUNTEER IMPACT WITHIN THE PHILIPPINE PROGRAM WHICH IS A PART OF THIS REGION.

IN FISCAL YEAR 1987 PROJECTS IN THE NANEAP REGION WILL CONTINUE TO EMPHASIZE THE INTEGRATION OF VOLUNTEER PLACEMENTS INTO HOST COUNTRY DEVELOPMENT PRIORITIES AND STRATEGIES.

THE FUTURE

AS PEACE CORPS EMERGES FROM A MILESTONE YEAR, OUR TWENTY-FIFTH ANNIVERSARY, WITH RENEWED CONFIDENCE IN OUR MISSION AND CONTINUED ADMINISTRATION AND CONGRESSIONAL SUPPORT, WE CAN SEE THE NEED THROUGHOUT THE DEVELOPING WORLD FOR CONTINUING THE PEACE CORPS PRESENCE. THE BASIC PROBLEMS WE ADDRESS STILL PERSIST: HUNGER AND MALNUTRITION, INFANT MORTALITY, POVERTY, ILLITERACY AND LIMITED EDUCATIONAL OPPORTUNITIES, AND INADEQUATE HEALTH CARE.

LITERALLY MILLIONS OF PEOPLE HAVE BEEN AFFECTED BY THE WORK OF PEACE CORPS VOLUNTEERS. MUCH MORE NEEDS TO BE DONE. AS I HAVE SAID OVER AND OVER AGAIN THESE PAST FIVE YEARS, NO QUICK FIX EXISTS FOR THE SERIOUS PROBLEMS AND CHALLENGES AFFECTING OVER HALF OF THE WORLD'S POPULATION. SOLVING THESE PROBLEMS IS A LONG-TERM PROCESS.

DEVELOPING COUNTRIES MUST RELY ON THEIR HUMAN RESOURCES TO ENSURE LONG-TERM SOLUTIONS TO THEIR PROBLEMS. PEACE CORPS VOLUNTEERS WILL CONTINUE TO PLAY A VITAL ROLE IN THIS EFFORT.

HOST COUNTRY GOVERNMENTS CONTINUE TO REQUEST MORE VOLUNTEERS THAN WE CAN PROVIDE. THE EFFECTIVENESS OF OUR VOLUNTEERS CONTINUES TO BE ENDORSED BY THE LEADERS OF THE DEVELOPING WORLD.

PEACE CORPS VOLUNTEERS IN THE NEXT TWENTY-FIVE YEARS WILL CONTINUE TO FORM THE TIES OF PEACE AND FRIENDSHIP BETWEEN OUR NATION AND THE OTHER PEOPLES LIVING IN WHAT IS RAPIDLY BECOMING A GLOBAL VILLAGE--OUR WORLD.

BUDGET REQUEST

PEACE CORPS IS REQUESTING $126.2 MILLION FOR FISCAL YEAR 1987. WE WILL RECRUIT APPROXIMATELY 2,600 NEW VOLUNTEERS AND SUPPORT APPROXIMATELY 5,000 VOLUNTEERS IN AFRICA, THE NANEAP REGION AND INTER-AMERICA. PEACE CORPS PLANS TO OPERATE IN 63 COUNTRIES.

IN FISCAL YEAR 1987 WE WILL CONTINUE TO OPERATE IN THE SPIRIT OF PARTNERSHIP AND BINATIONALISM. WE WILL ENSURE THAT PROJECTS NOT ONLY RESPOND TO THE CHANGING PRIORITIES AND BASIC NEEDS OF THE PEOPLE WE SERVE, BUT ALSO THAT PROJECTS ARE JOINTLY DEVELOPED, IMPLEMENTED AND SUPPORTED BY OUR HOST COUNTRIES.

PEACE CORPS WILL ALSO CONTINUE TO PLACE VOLUNTEERS WHERE THEY CAN HAVE THE GREATEST IMPACT. THIS WILL MEAN CONTINUOUS REVIEW OF CURRENT PROGRAMS. IN FISCAL YEAR 1987, PEACE CORPS WILL CONTINUE ITS INITIATIVES FOR THE CARIBBEAN BASIN, CENTRAL AND SOUTH AMERICAN ALTHOUGH THE RATE OF REPLACING VOLUNTEERS THERE WILL BE REDUCED.

OUR COLLABORATIVE EFFORTS WITH PUBLIC AND PRIVATE ORGANIZATIONS WILL BE INCREASED TO BETTER MEET THE PROGRAM NEEDS OF OUR VOLUNTEERS AND THE PEOPLE OF THE DEVELOPING NATIONS.

IN CONCLUSION

IN MY RECENT TRAVELS TO EVENTS HONORING PEACE CORPS TWENTY-FIFTH ANNIVERSARY, I FIND THAT WE ARE RECONNECTING WITH THOUSANDS OF RETURNED VOLUNTEERS. WE ARE FINDING THAT MANY ARE LEADERS IN INDUSTRY, FINANCIAL INSTITUTIONS AND IN OUR NATIONS UNIVERSITIES--SOME AS YOU KNOW ARE LEADERS IN OUR NATION'S GOVERNMENT.

IN SEPTEMBER OF THIS YEAR THESE RETURNED VOLUNTEERS AND THOUSANDS MORE FROM ACROSS OUR NATION WILL COME TO WASHINGTON, D.C. FOR A TWO-DAY CONFERENCE AND REUNION. THIS EVENT WILL MARK THE CONCLUSION OF OUR YEAR-LONG TWENTY-FIFTH ANNIVERSARY CELEBRATION. HOWEVER, IT WILL ALSO MARK THE BEGINNING OF THE NEXT TWENTY-FIVE YEARS FOR THE PEACE CORPS. A PEACE CORPS THAT IS BETTER PREPARED TO MEET THE FUTURE CHALLENGES OF THE DEVELOPING WORLD.

IT HAS BEEN A PRIVILEGE FOR ME TO APPEAR BEFORE YOU. NOW IN MY FIFTH YEAR AS DIRECTOR OF THE PEACE CORPS, I AM MORE CONVINCED THAN EVER THAT PEACE CORPS IS ONE OF AMERICA'S GREATEST RESOURCES. PEACE CORPS VOLUNTEERS REPRESENT WHAT AMERICA STANDS FOR...A NATION OF COUNTLESS HUMAN BEINGS OF ALL AGES FROM ALL WALKS OF LIFE WILLING TO GIVE TWO YEARS OF THEIR LIVES TO HELP OTHERS HELP THEMSELVES.

Mr. Obey. You proposed around 6,000 volunteers for '86. That was the intention. Now you said you are going to be at 5200?

Ms. Ruppe. Around 5,000 to 5200.

Mr. Obey. Can you give me some examples of what impact that is going to have on your country programs?

Ms. Ruppe. Well, we had to cancel a health unit that was going to be going into Kenya. We had to really review all of our country programs and we had to cut 600 trainees. I think where it is particularly painful is in Africa where this African Food System Initiative is really looked at as one of the keys to promoting food production and working closely with AID, with private volunteer organizations, because we have this tremendous force with these skills that just has to be cut back.

We planned to be in 12 countries in Africa with this program funded for the next four years. We have already cut back from the four we hoped to be in this year. We are down to three, and reduced in numbers from 156 volunteers to 108. Those are some of the types of cuts we have made. Well, unfortunately, almost all of our resources go into volunteer support. We don't have too much else that we can cut because we have been running on kind of the cutting edge.

Mr. Obey. Where regionally do you think the basic impact will come? You mentioned Africa. Do you think this is where the biggest impact will come?

Ms. Ruppe. Well, it is our larger programs. Another point is the Gramm-Rudman reductions came in the second quarter of our fiscal year. Our majority of materials go into Africa in the summertime, so the fourth quarter really was impacted hardest, because the first second and third quarter we already had people who had been accepted into the program and we didn't feel we could just cut them off. So the largest majority of cuts have to be made in the fourth quarter.

Mr. Obey. Do you consider there are regional priorities?

Ms. Ruppe. Well, we consider every country we are in. If you mean one region over another, no, it would be more prioritizing what we feel are developing country needs in trying to have a significant impact on that region by region, which means in Africa food production; in the Pacific you are looking for more small businesses, health—in Thailand, getting into computer training.

We see a tremendous future in the Peace Corps in doing electronic Peace Corps programs over the next 25 years. Countries are very eager in their regional planning, and I am going to Secretary Baker and talk about all these older Americans who are willing to serve with tremendous business skills. Many of these countries need export projects, need their ministers trained to do the projections, so that their country can really make plans that again will utilize limited resources.

Mr. Obey. Can you describe to me the recruiting process? I am interested in a number of things. Can you tell me what the process is by which you recruit, what the process is by which you select who will become a volunteer and who won't? And what I would also be interested in knowing, to what extent those who would be qualified to serve as volunteers in reasonably high priority positions are not in fact plugged in because of lack of resources.

Ms. RUPPE. Well, the last year for which we have figures, we received approximately 120,000 inquiries. That translates into somewhere in the neighborhood of 15,000 applications. Some of those applications have to be automatically discarded due to the fact that they have a family.

We simply don't have a budget that can support sending families, or if they have health prolems that we can see, or a general skill that we simply are so oversupplied with. We look seriously at around 7,000, 9,000 applications. Those are reviewed very carefully. They are required to have eight recommendations, eight references checked. They have an interview with a recruiter which is followed up once if necessary. They have a health check, national security check. And at that point after trying to match up with requests from countries the decision is made. Normally, the competition is stiff if it is not a nonscarce skill, anything in agriculture, forestry is an extremely scarce skill for us, also engineers. Many countries asked us for engineers.

Mr. OBEY. Forestry is?

Ms. RUPPE. Forestry is a very scarce skill. Desprately needed for the whole question of reforestation conservation. Agriforestry is akin to the promotion of agricultural production also.

You asked how many would you say were qualified that were turned aside. You have to remember this. Due to the budget restriction, we only have 88 recruiters nationwide to cover 50 states. However, I am proud to say that on a per capita basis they do far better than other recruiting efforts in this country.

However, I asked that very question that you asked me just recently of our director of recruiting and was told that last year we estimated that the number who go through the process, fully qualified people that could have been placed, even with this minimum recruiting efforts, numbered 3,400 who were fully qualified and could have been placed.

Mr. OBEY. I was going to ask you, what you consider will be shortage areas five years from now? We are under Gramm-Rudman, and I would ask you two questions. Let me put it this way. Assuming each year for five years you met the Gramm-Rudman targets and that you took an equal share of reductions, so that we in effect each year went through the sequestration process and cut those programs that are eligible to be reduced, those that aren't put off limits. In five years, where would you be if you had to absorb each of those reductions?

Ms. RUPPE. I think this should be taken into account when you are making this decision—what Federal agencies truly had this much growth that we talk about so much, and the Peace Corps did not. The Peace Corps was one of the only Federal agencies to have had a decline in budget. I happen to be the only Federal appointee to be a director of an agency that had a lesser budget in 1981 than it had in 1967. That was in current dollars.

In constant dollars, the figures are—(I will show you).

[The information follows:]

OBLIGATIONS IN CURRENT AND CONSTANT DOLLARS
FY 1962-FY 1987
($000)

FISCAL YEAR	GNP DEFLATOR	CURRENT DOLLARS	CONSTANT DOLLARS
1962	70.55	29,496	41,809
1963	71.59	54,692	76,396
1964	72.21	76,164	105,476
1965	74.32	85,449	114,974
1966	76.69	113,173	147,437
1967	79.02	104,525	132,277
1968	82.57	106,846	129,401
1969	86.72	100,301	115,661
1970	91.36	90,776	99,361
1971	96.02	84,978	88,500
1972	100.00	75,037	75,037
1973	105.92	80,560	76,057
1974	116.18	76,949	66,233
1975	122.18	77,670	63,570
1976	132.11	77,041	58,316
1977	139.83	79,975	57,194
1978	150.05	86,145	57,411
1979	162.77	98,399	60,453
1980	177.36	99,204	55,934
1981	191.45	104,700	54,688
1982	204.92	104,694	51,090
1983	212.71	108,501	51,009
1984	221.43	115,024	51,946
1985	228.52	129,533	56,684
1986	237.20		
1987	246.93		

*$2,000 SUPPLEMENTAL, OBLIGATIONAL AUTHORITY UNTIL MARCH 31, 1985
$451 OBLIGATED IN FY 84, BALANCE AVAILABLE IN FY 85

**$130,000 appropriated; $124,410 with Gramm-Rudman-Hollings reduction

1984-1987 GNP DEFLATORS FROM THE US BUDGET IN BRIEF, FY 1987

Ms. **Ruppe**. Even in the last five years, we are at less than we were in 1981 when I took over in actual ability to support our program. So, if on top of this, you take the Gramm-Rudman reduction, which has already reduced us from 6200 volunteers just in one year, to closer to 5200, we estimate the Gramm-Rudman reduction would take us down to about $90 million in those five years.

We would estimate that we would be down to 2,500 volunteers approximately. We would have to come out of countless countries, and I would hate to say what that would mean in cost-effectiveness.

Mr. **Obey**. What would be the best way? Is there a good likelihood that that will happen? I don't see us unplugging Gramm-Rudman. What would be the best way to manage that budget back in terms of numbers of countries involved, or trying to stay involved in as many countries as possible?

Ms. **Ruppe**. It is just so difficult. Even in these Gramm-Rudman reductions that we just did, we receive cables from ambassadors in these countries saying: Why is this happening? Is this something to do with politics? What is the reason? Why would Peace Corps be reduced when we were rebuilding?

I think we would have to just gut the program. At $90 million we would have to look, as that unfolded, over the year and see if there are countries where our costs are very high and where it doesn't seem practical—at some point you do get to that.

Even with Gramm-Rudman, our cost for volunteers have gone up. The very reduction you are looking at in Gramm-Rudman, if they went the other way, would allow us to be 10,000 volunteers within that time frame for $10 million additional a year. So you yourself know it is very difficult to make substantive judgments by the Congress, given the different priorities.

FUTURE OF PEACE CORPS

Mr. **Obey**. If you were simply level-funded over the next five years, in nominal dollars, not in real dollars, given that kind of atmosphere, how do you think the Peace Corps five years from now would be different in terms of policy changes, different needs placed on it, different priorities, different approaches?

I am trying to exclude it as much as possible in this question from the question of dollars available, but it is damn hard to do, obviously. So, assuming that you at least were held in nominal dollar terms to the same numbers for five years rather than getting actual reductions, and given policy changes, or changes in approach that you would like to see take place over the next five years, how would the Peace Corps differ in five years' time from the Peace Corps today?

Ms. **Ruppe**. Well, again, it would be half the numbers. We would have to look at the countries. I am sure we would have to reduce by a few countries. I think we would certainly continue what we consider our primary goal in Africa, that is, to promote food production. So at the expense of education or small business development, though, we have a small business development component in agriculture.

Mr. **Obey**. Let me ask the question a different way. If you received a real dollar budget each year for the next five years, which was at the same level, there was no real cut in your ability to deliver a program, how would you then like to see the Peace Corps different five years from now than it is today?

Ms. RUPPE. Well, let me point out, staying at the same amount, because of increases in all of those basic fixed costs doesn't leave us resources to do anything more. As a matter of fact, we would still show further reductions. I would like to see the Peace Corps be—well, I think if that decision was made, I would have to say our country simply will not support a Peace Corps; let's go to private sector and see if perhaps we can find even more partnerships.

We are still working on that very diligently. However, I have really, after five years' experience here, come to the conclusion that if our country cannot indeed support a Peace Corps, then our priorities are wrong. I have seen how this program has worked. I have talked to 47 leaders of countries, and have seen what it brought back to America. So what we would see is a failure to, for instance, utilize the doctors of America.

There is a surplus of doctors now. In the next 10 years, I would like to see Peace Corps sending doctors to the medical schools of the developing world. I have to talk more in what I wouldn't see done. What you are talking about doesn't allow us to do most of what we should be doing.

I would like to see dentists, the surplus of dentists we have now, the Peace Corps should have been programming them 10 years ago. We should be a cost-effective agency to utilize this national resource that our country has in Americans who are working to serve in 1986, even as they served in 1961. We would continue to focus, certainly, with limited ability, to coordinate, and long-range planning, to allow us to use the limited resources we have received as effectively as possible.

We would certainly continue our strong outreach to older Americans with agricultural skills. They are a key to promoting food production in Africa and the marketing capability, in Central America, which is asking us for more trainers, teachers of teachers. We would have to work even harder to get these scarce skills, especially in special education and training.

But with our retired faculties, maybe there is some way that we can leverage our ability to do what we should be doing by getting universities to help us. However, with budgets being cut, that is going to be difficult.

EDUCATION AND DOMESTIC PEACE CORPS

Mr. OBEY. Let me ask you a different question. Assuming that sometime sooner or later the country passes through this green-eyeshade era and we begin to look at what the hell, we really don't like to be doing this as a country. Rather than simply liking to balance our values and expand American ideas and everything else, rather than just looking at countless products, you have got a number of reports floating around suggesting that we ought to be expanding educational opportunities for people.

The Carnegie Foundation, for instance, is talking about the possibility of—it is a dream, I would grant you—but they talk about the possibility of providing a fuller partial writeoff for the amount that students would owe on student loans if they were willing after graduation to participate in national service programs.

If we ever got to that kind of a situation, where this country was trying to promote the concept of service, both domestic and in the ghetto, poor rural areas abroad, how do you think the Peace Corps could plug into that kind of approach?

Ms. RUPPE. I think it should definitely be one of the programs that would be utilized in any concept of national service.

Mr. OBEY. Have you thought it through?

Ms. RUPPE. Yes, sir.

Mr. OBEY. How would it work mechanically? Has anybody in your shop tried to put together the numbers so that you would have some idea what kind of service would be required, for what period of time, at what levels of support for the personnel while they are in the Peace Corps in return for a specific level for forgiveness of loans? Has anybody looked into this?

Ms. RUPPE. We are looking precisely at what you have so well put. Dr. Bok of Harvard, Dr. Kennedy of Stanford, the President of Michigan State, land-grant colleges, Father Healy of Georgetown, Dr. Guskin of Antioch College have all agreed to serve on a special commission to help the Peace Corps do precisely what you are saying, and we expect in September to have a full report on a variety of those.

One would be, of course, national service. The other is a concept of a ROTC program for Peace Corps service. We feel this would help us get more minorities into the Peace Corps, which is very important as we are a career step into our own agency.

We are talking about the possibility, you know, of a year of service. Father Healy has already said: What about a year of service for a year's college education? And we do expect to have a plan which we would very much like to keep you apprised of as it is fleshed out and present those figures to you. I do not have definite figures right now. We could present for the record an outline of a program that would utilize that.

Mr. OBEY. A devil's advocate question, a naysaying question: If that kind of a program were eventually to be produced, I imagine some people would say: Here they go again, we are lending kids money to go to school, then when they get out of school we are saying: Okay, you can have a year's joy-ride somewhere around the world, and in return for that you will get your loan forgiven or partially forgiven.

They might suggest that the country isn't getting nearly as much out of it as the individual is. So therefore it was just another half-baked cockamamie liberal idealistic scheme that indicated that we had no damn idea what reality was all about.

What would your response be to an objection of that nature?

Ms. RUPPE. If I recall, many Members of your committee have visited Peace Corps volunteers at their sites. A number of them have reported they are not having a joyride, but they find them extremely hard-working. And I think if we wanted to do any comparisons between those who are affecting our security, then we could look at the relative effect of a Peace Corps volunteer vis-a-vis a member of the armed forces, who certainly receives these benefits for their work. So I think any report, I am convinced, that would be done would show, and could be shown to the American public, would strongly support the Peace Corps as to what it does.

Certainly the Army and the Air Force say "Be all that you can be." They want their people to come out better, better Americans.

We know that our volunteers return better Americans, better equipped to work on the real issues that affect world security. So I know that we could give a report to the American public, or to any Member of Congress, or this Administration that would show this would be a very valuable investment and that everybody would come out winners.

Mr. **Obey**. I agree with that but I want you to say it, not me.

I find it fascinating at the end of World War II we devoted, in 1985 dollar terms, we provided the kids who wanted to go on to school, through the G.I. Bill, which was the only program available, we provided in 1985 dollar terms about $12 billion in assistance. We had 2.6 million kids who were participating. Today we have got about 12 million kids.

We are providing about $8 billion in direct Federal money. If you add to that the money we gave through the guaranteed student loan program so that you have got to take into account all of the other capital being generated even though it has to be paid back, you are only talking about an investment of about $16 billion to $17 billion.

In per capita terms, that means in 1985 dollars, at the end of World War II we were providing about $4,000 per kid in support to go to school. Today, if you don't count the GSL program, we are providing about $650 per capita. If you do count everything, we are providing about $1400 to $1500. Then the scoffers will say: Well, it really isn't very serious, as I see it.

But I think it is. I think we got a big bang for our buck in the G.I. Bill.

Mr. **Obey**. That was tied to the concept of service?

Ms. **Ruppe**. Yes, sir.

Mr. **Obey**. Prior service. I really think that we do a hell of a lot to not only raise the quality of our work force but also raise and broaden and strengthen the values of the country.

Ms. **Ruppe**. Well, I think it is also interesting that Father Hesburgh of Notre Dame mentioned students on his campus, American youth are also questioning why aren't there programs for Peace Corps Service that would be similar to our ROTC programs, so American youth itself is challenging some of this.

EL SALVADOR

Mr. **Obey**. El Salvador, you don't have a program there now?

Ms. **Ruppe**. No, we left both El Salvador and Nicaragua in the late seventies.

Mr. **Obey**. My understanding is President Duarte has expressed an interest in running with this; is that correct?

Ms. **Ruppe**. President Duarte, when he attended the inauguration of the President of Guatemala, talked with our country director there and did show an interest and later on followed up in a communication with the Embassy in El Salvador.

I remember sitting next to him at the Notre Dame breakfast where he talked about the work of the Peace Corps in El Salvador when he was at the village level himself.

Mr. **Obey**. Have they made a formal——

Ms. **Ruppe**. They have not made a formal request, and our Ambassador has cabled at this point in time he really feels, in a security sense, it is just not appropriate to have volunteers there.

CHINA

Mr. Obey. What about China, you indicated in last year's testimony China had asked for information on the Peace Corps. Has anything moved beyond——

Ms. Ruppe. That they have asked for a continuing supply of information, but they have indicated that they feel at the moment it is premature to think seriously about a program.

However, I did have an opportunity in a very informal way to mention to them that we do have a number of older Americans joining the Peace Corps, as they are very eager to have management skills; that perhaps in the future we could talk about some programs geared to those lines. If they are interested in English teaching we have a long history in that, even in some of the ideas that we are discussing during this 25th anniversary—it is 25 years since 1961, we have learned a lot in the developing world.

Many of these countries also have a new focus on development; they are a new generation to work with. I feel it is critically important that we have the type of Peace Corps partners that have established skills, language, cultural understanding, living with the people, exchange of that. It is critical to our understanding as a nation as to how to craft partnerships for peace, so we are very eager to have Americans return to, for instance, India or Indochina.

So we are even talking about in the future, perhaps, the idea of exchanging, I mean it would be great, I think, to be able to go to the Prime Minister of India and say, what about you supplying 100 teachers or trainers, for needed areas here in the United States, while we supply 100 Americans.

So we are also talking about those types of things in the years ahead. Perhaps that would be one for China, certainly the need for Chinese language training here, history of China, the tremendous advances they have made in many areas.

BUDGET PRIORITIES

Mr. Obey. Those are all the questions I have for the moment. Let me just make one observation.

I don't know whether this committee is finally going to be able to wind up on any of these items, because we are put in the impossible position where we are supposed to pass a bill which is $2 billion higher than last year, overall, and we are supposed to finance it by cutting cancer research, heart disease research, AIDS research, transportation, education, rural sewer and water that last program would be eliminated in the President's budget. Congress isn't going to support those priorities. I don't think either side of the table is going to support those priorities in the end. I don't know how much we are going to get them changed. That means we are going to wind up squeezing a lot of things we don't want to squeeze, including your programs.

Elliot Abrams told a group of Haitians yesterday that their problem was people like me because I was their enemy, because I was not supporting increases in funding for Haiti. It it representing new, unfinanced aid, and my response to him would be that I have tried to work very closely with the administration, including Mr. McPherson on the aid question in order to try to get more money to Haiti.

But I have got an obligation Mr. Abrams doesn't have, I have an obligation to see as a Member of Congress, that whatever the subcommittee does fits within the context of sensible budget policy and so I would suggest that the real enemies of aid to Haiti, real enemies of the Peace Corps, the real enemies are the same people who are the real enemies of cancer research, heart disease and AIDS research, Alzheimer's research, education, agriculture, rural sewer and water; those are the same people, people who will not support a strengthened revenue base to pay for those programs or, for that matter, to pay for an increased military obligation the President seems to support.

So I hope the people who understand that if we wind up having to cut programs like yours, it isn't because we want to but because we have not been given the resources to fund them, and unlike people like Mr. Abrams who have to look, who have the luxury of looking at only one side of the ledger, we have to look at the whole circle and it makes it not very pleasant but it is a position we are in. I just want to leave you with that little thought.

Good luck.

Ms. **Ruppe**. Thank you very much.

Questions for the Record Submitted by Mr. Obey

1. A number of countries over the years have asked the Peace Corps to depart for various reasons after a few years of operation. They sometimes change their minds and ask for renewal of the Peace Corps program. What are some of the countries that have recently asked the Peace Corps to resume sending volunteers? What countries that did not previously host Peace Corps volunteers have requested them in the recent past?

The following chart presents those countries which have shown interest in Peace Corps sending volunteers. As indicated, some are countries which previously had Peace Corps, others have not. Dates of original entry and departure are added if appropriate. Country names with an asterisk (*) indicate that the interest in entry or re-entry is not yet an official request and stems from preliminary discussions between U.S. Embassy staff and host country officials.

Country	Previous Peace Corps Operation?	Original Entry	Departure	Entry	Departure
Inter-America:					
Brazil*	Yes	1962	1981		
Chile*	Yes	1961	1982		
Panama*	Yes	1963	1971		
North Africa, Near East, Asia, and Pacific:					
China (PRC)	No				
Djibouti*	No				
Maldives*	No				
Malta	Yes	1970	1977		
Pakistan*	Yes	1961	1967		
Africa:					
Chad	Yes	1966	1979		
Equatorial Guinea	No				
Zambia	No				
Comoros Islands	No				

2. The State Department has just requested approval of a $4.4 billion 5-7 year program to enhance the security of U.S. diplomatic premises and personnel overseas and protect our Foreign Service staff against terrorist attack. Has the Peace Corps had any problems with terrorism?

The Peace Corps has not had any direct problems as a result of terrorism. Indirectly, Peace Corps has had to evacuate five volunteers from Sudan due to the recent unrest in that country. (There were no staff to evacuate in this case.) All five volunteers were evacuated safely to Nairobi and are all now back in the United

States. Recently, volunteers in Tunisia were put on evacuation alert and asked to assemble at pre-determined sites within the country as a precaution. No further action became necessary however and all volunteers are now back at their sites. Evacuation plans such as these are in place in each of our posts.

3. Has the State Department conferred with you on providing enhanced security for Peace Corps Country Directors, staff, or volunteers?

Peace Corps and State Department staff are in continuing discussions on security, both here and abroad. Each overseas post must have in place an emergency evacuation plan which must be fully coordinated with the Embassy to ensure consistency with Embassy plans. Regional Security Officers overseas have conducted numerous surveys of Peace Corps office buildings and residences, to identify needed security measures. Embassy security staffs serve as an advisory staff for the Peace Corps staffs overseas and are encouraged to assist in training of volunteers in-country. The State Department has permitted Peace Corps staff to participate in security training at State, and has provided information materials for use in staff and volunteer training cycles. State also coordinates with Peace Corps on impacts of security guidelines issued to overseas posts, such as the recent guidance on use of alternate carriers for international travel. They also work closely with Peace Corps both here and overseas to develop appropriate responses to individual situations as they occur.

Peace Corps has also established a special Security Task Force consisting of a team of executive managers that monitor and make recommendations to the Director on security matters.

WEDNESDAY, APRIL 16, 1986.

NEAR AND MIDDLE EAST REGIONAL PROGRAMS

WITNESSES

RICHARD W. MURPHY, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

Mr. OBEY. Mr. Secretary, I am not quite sure where we are at in the House. As you know, we had this hearing scheduled once before and ran into a major legislative session in the House and had to cancel so we have now re-scheduled and we have the same issue up on the floor we had the last time we cancelled.

So I guess you can't win for losing. Let me simply say to take care of the formalities this morning, the committee will review the $5.8 billion request for foreign assistance in the fiscal year 1987 budget for the Near and Middle East, which compares with $5.6 billion provided in the full sequestration Gramm-Rudman 1986 appropriation package.

The overall Middle East program request accounts for approximately 38 percent of the fiscal year 1987 total foreign assistance program, $5.8 billion out of a request of $15.4 billion.

Mr. Secretary, I think, frankly, that a number of us are just as uncomfortable about what that number implies in terms of squeezing other parts of the world as the Administration is, but we are caught in a lot of boxes these days.

Our witnesses today are Mr. Richard W. Murphy, Assistant Secretary, Bureau of Near Eastern and South Asian Affairs, Department of State; Mr. Charles Greenleaf, Jr., Assistant Administrator, Bureau for Asia and the Near East, Agency for International Development; and Lt. General Philip C. Gast, Director, Defense Security Assistance Agency.

I am frankly not quite sure what the committee is going to want to focus on this morning. I expect that we had planned to focus generally on the overall prospects for further movement in the Middle East.

I suspect that the events of the last two days as they relate to our actions with Libya will divert our attention somewhat from the original plans that we had and that the committee will have a number of questions on that.

Before you begin I guess I would just say extemporaneously that I don't think we have, in consideration of the Middle Eastern program, I don't think the specific dollars are at issue.

I think the general perception of the average American citizen is that the reasoning for the large amount of money that we provide to the Middle East by way of foreign assistance is really two-fold. Number one, because we did reach a series of agreements with countries such as Israel and Egypt on certain actions that they were going to take to further the peace process at Camp David, and at other times, and that the assistance that we provided as part of that agreement served as a lubricant for that process at that time.

I think that there is also a general expectation that one of the reasons that we provide this amount of money is because of our hopes that it will continue to provide us with the influence and access necessary to persuade all of the parties to move along further on the Middle Eastern peace process.

I am frankly not sure how realistic the latter assumption is given the way events have developed in the Middle East since Camp David, but I think that is still a general expectation and hope that most American citizens who know anything at all about the subject share.

I think that also there are certainly some questions we need to ask. We provided about $32 billion over the past five years to key countries in this region and for a variety of reasons, we don't seem to have much to show for it in terms of additional progress beyond the original Camp David Accords.

I guess as Chairman I have got an obligation to ask a question on what are we getting these days for our money in that sense and what the prospects for additional movement are. There is a growing feeling I think on the part of some members of Congress that there is really no expectation that the peace process is going to move forward, that we are really in a sense going through the motions trying to avoid admitting that there isn't anything further that is likely to happen for the foreseeable future.

I hope that is wrong and I would appreciate your comments on it. I think we also have another question.

As you know, the country's attention was riveted on the Iranian hostages for a long period of time. They are now, thank God, home, but we do have some other hostages and we have not been able to achieve much by way of progress in bringing them home over a long period of time and I guess the committee would be interested in knowing what your views are in terms of whether there is any possibility of any movement on that score.

Thirdly, in light of the actions with Libya yesterday, I guess I would simply say and ask this—I don't think you will find many Members of Congress questioning the fact that the Administration and the United States had the right to do what we did in responding to Libya's past actions and our future expectations about their actions.

Certainly if our policy is to make them pay a price for terrorism there is no question that what happened yesterday did that. I guess I would ask some questions related to future developments.

What is our basic policy toward Libya? What is the bottom line purpose of our policy?

I think the President himself indicated in his statement that he does not have any great expectation that what we did yesterday will change Mr. Qadhafi's conduct. I think questions we need to ask would be do we think what we did yesterday will in any way change his conduct? Do we think what we did yesterday or two days ago, I guess, will isolate him?

Is it likely to have, at least for the short term, the opposite effect? How long will it take for that opposite effect to wear off, if you think it might do that short term?

And what is the best way, if the goal of our policy is to either change his conduct or to hopefully see him conveniently removed from power, what is the best way to accomplish that if we don't get more rational behavior out of him?

I think those are some of the questions people are asking. I know that is not in the main what you came to testify about, but I know that is what people are asking me about. Since you know more about it than I do, I figured I would pass the ball to you and see what your answer is. First, I have some charts on aid levels for the record.

[The information follows:]

Middle East Regional
Total Assistance ($000)

Country	FY 85	FY 86	FY 87	-----FY 86/87----- Difference	Percentage
Algeria	64	48	150	102	212.50%
Egypt	2,491,675[1]	2,027,205	2,117,000	89,795	4.43%
Israel	4,100,000[2]	2,871,000	3,000,000	129,000	0.45%
Jordan	361,877[3]	92,590	135,000	42,410	46.00%
Lebanon	19,480	22,420	2,800	(19,620)	-87.51%
Morocco	86,302	69,529	111,942	42,413	61.0%
Oman	60,155	28,854	59,005	30,151	104.50%
Tunisia	90,937	81,744	90,726	8,982	10.99%
Yemen	34,955	26,959	36,483	9,524	35.33%
N.E. Reg.	23,640	0[4]	0[4]	0[4]	0
Total	7,269,085	5,220,349	5,553,106	332,757	6.37%

1. Includes $500 million in supplemental funds authorized for obligation in FY 1985 and FY 1986.

2. Includes $1.5 billion in supplemental funds authorized for obligation in FY 1985 and FY 1986.

3. Includes $250 million in supplemental funds authorized for obligation in FY 1985, FY 1986 and FY 1987.

4. For FY 1986 and FY 1987, Near East Regional funds are included under the heading Asia/Near East Regional, the totals for which are shown in the South Asia totals, shown in Part 3 of the FY 1987 Hearings.

Middle East Regional
Development Assistance ($000)

COUNTRY	FY 85	FY 86	FY 87	--FY 86/87 Difference	Percentage
Morocco	19,545	20,000	18,000	(2,000)	-10.00%
Tunisia	2,540	--	--	0	
Yemen	27,449	23,000	26,000	3,000	13.04%
Near East Reg.	5,438	--[1]	--[1]	0[1]	
Total	54,972	43,000	44,000	1,000	2.3%

[1] See footnote 4 at bottom of Total Assistance table.

Middle East Regional
Economic Support Funds ($000)

Country	FY 85	FY 86	FY 87	---FY 86/87---- Difference	Percentage
Egypt	1,315,000[1]	779,955	815,000	35,045	4.49%
Israel	2,700,000[1]	1,148,400	1,200,000	51,600	4.49%
Jordan	270,000[1]	9,570	18,000	8,430	88.00%
Lebanon	18,775	21,942	2,000	(19,942)	-90.89%
Morocco	15,000	11,484	20,000	8,516	74.15%
Oman	20,000	9,570	18,800	9,230	96.45%
Tunisia	20,000	19,140	20,000	860	4.49%
N.E. Reg.	18,202	--[1]	--[1]	0[1]	
Total	4,376,977	2,000,061	2,093,800	93,739	4.7%

[1] See appropriate footnote on Total Assistance Table.

Middle East Regional
Peace Corps ($000)

	FY 85	FY 86	FY 87	--FY 86/87 Difference	Percentage
Morocco	2,278	2,158	2,092	(66)	-3.06%
Tunisia	1,794	1,835	1,926	91	4.96%
Yemen	1,128	897	933	36	4.01%
Total	5,200	4,890	4,951	61	1.24%

Middle East Regional
Foreign Military Sales ($000)

	FY 85	FY 86	FY 87	--FY 86/87	
				Difference	percentage
Egypt	1,175,000	1,244,100	1,300,000	55,900	4.49%
Israel	1,400,000	1,722,600	1,800,000	77,400	4.49%
Jordan	90,000	81,345	115,000	33,655	41.37%
Morocco	8,000	957	10,000	9,043	944.93%
Oman	40,000	19,140	40,000	20,860	108.99%
Tunisia	50,000	25,839	27,000	1,161	4.49%
Yemen	--	--	3,000	3,000	100.0%
Total	2,763,000	3,093,981	3,295,000	201,019	6.5%

Middle
East Regional
Military Assistance Program ($000)

Country	FY 85	FY 86	FY 87	----FY 86/87----- Difference	Percentage
Morocco	40,000	33,495	60,000	26,505	79.13%
Tunisia	15,000	33,495	40,000	6,505	19.42%
Yemen	5,000	1,914	5,000	3,086	161.23%
Total	60,000	68,904	105,000	36,096	52.4%

Middle East Regional
International Military Education and Training ($000)

Country	FY 85	FY 86	FY 87	---FY 86/87--- Difference	Percentage
Algeria	64	48	150	102	212.50%
Egypt	1,675	1,723	2,000	277	16.08%
Jordan	1,877	1,675	2,000	325	19.40%
Lebanon	705	478	800	322	67.36%
Morocco	1,479	1,435	1,850	415	28.92%
Oman	155	144	205	61	42.36%
Tunisia	1,603	1,435	1,800	365	25.44%
Yemen	1,378	1,148	1,550	402	35.02%
Total	8,936	8,086	10,355	2,269	28.00%

Mr. OBEY. Go ahead.

Mr. MURPHY. Well, thank you, Mr. Chairman. I will try to cover all of the subjects that you have raised just now.

FOREIGN ASSISTANCE TO THE MIDDLE EAST

I think they are fair questions on what is the American taxpayer getting in terms of the peace process for all of the investment and transfer of our resources to the region.

Certainly on the hostages, on Libya, I will be happy to comment to the extent that I can in open session. I thank you for this chance to testify in support of our proposals for fiscal year 1987, our economic and security assistance for the Middle East and North Africa.

This year more than any other in which I have served as Assistant Secretary, the Congress and the Administration are feeling the budget squeeze. In a less stringent environment we would be seeking higher levels of assistance for 1987 for countries in the Middle East and North Africa which we think are justified.

Instead, we have held our request to levels we think are absolutely necessary to carry out essential programs that serve our national interest. The primary goal of our foreign assistance program is to support friendly states with common interests in promoting economic and political stability.

When we compare the request levels to international trade and to other financial flows, our programs are not large but they do provide a critical reinforcement to policies and institutions to which we are committed and which enable us as a global power to protect legitimate interests.

The reciprocal benefit to us and our friends is the basis of our foreign assistance proposals. The request for Middle East and North Africa is $5.823 billion, 36 percent percent of the Administration's global request for fiscal year 1987.

I think I have saved you two percent if my statistics are accurate.

Mr. OBEY. We will take anything we can get.

Mr. MURPHY. A large proportion of these funds are designed to help promote Middle East peace. Israel would be the recipient of much of our proposed assistance. Our commitment to Israeli security and economic requirements is rock solid.

We support the economic and security needs of Egypt, Israel, and Jordan who have taken risks for peace and stability in that strategic region. Our Middle East regional program addresses the quality of Palestinian life in the occupied West Bank and Gaza. It furthers our objectives of peace, economic development and social progress in these territories.

In Lebanon, our small request is vital to support moderate elements and reconstruction efforts in the war-ravaged parts of that country. Our assistance also supports other important objectives.

We are protecting the free world's access to oil resources in the strategic gulf region in cooperation with friendly Arab states in the Gulf. Our aid to Oman contributes to this effort.

Our assistance programs parallel our interest in maintaining military access rights in Morocco and Tunisia. The recent instability in South Yemen exacerbated by Soviet interference makes our assistance to the Yemen Arab Republic particularly significant at this time.

Our small IMET program with Algeria provides valuable contact and cooperation with its military.

Mr. Chairman, these programs promote important American interests. Our request takes fully into account budget stringencies. We urge the Congress to support the funding levels proposed for these key countries in Middle East and North Africa.

MIDDLE EAST PEACE PROCESS

I would be happy to take questions. Perhaps you have given priority to the peace process and if I might start off with just a few comments on that.

I came back yesterday from a further round of visits in the area and it was focused principally on two purposes. One was to accompany the Vice President on part of his own tour of the Arabian Peninsula which was designed to express our support for the self-defense efforts of the Gulf countries and the Gulf Cooperation Council against Iranian actions in the Iraq-Iran war, which threaten to spill over into the Gulf.

But the second part, I concentrated primarily in Egypt and Israel, although I did visit Jordan and Syria in the course of the visit. On Egypt and Israel, they have been working very intensively for the past nine months on what we call—what they call a basket deal to improve their relationship. Now this includes a wide variety of items such as increasing trade, tourism and improved political dialogue, the Taba issue and I can report a number of positive developments in the bilateral relationship.

I think unquestionably our support, both political and economic, to those two countries has given us a considerable influence and access to their leadership. There have been between Israel and Egypt a number of high level visits.

These have increased over the course of the past year. I just mention visits from Israel of Aba Eban, of the Israeli tourism minister, from Egypt, Boutros Ghali, the Minister of State for Foreign Affairs, the Egyptian Energy Minister, the Egyptian Tourism Minister.

There is a good, a growing relationship in agriculture, agricultural exchange on technology. There is a solid relationship in terms of the arrangements affecting Israeli purchase of Egyptian petroleum.

There has been progress on military liaison issues such as the search for the Dacar submarine, Israeli submarine lost many years ago, searching for Israeli soldiers. There has been a recent Egyptian governmental decision to eliminate special procedures for Egyptians wishing to travel to Israel.

TABA NEGOTIATIONS

The focus of my talks, special focus, was what can be done about one of the lingering issues, the status of it, of Taba, that small piece of land next to the Israeli Port of Eilet. I can report that the decision of the two sides to go to arbitration has stimulated the work of the Egyptian and Israeli working groups and it has made substantial progress.

I used my recent trip to press for closure on this issue and I believe that as of this moment both sides now know with great precision where the middle ground is on the outstanding issues.

Both Egypt and Israel have shown their desire that they want to close and we have every expectation that we will soon get decisions that will allow us to put this issue behind us. I think there is no question that removing the Taba issue from the bilateral agenda will contribute momentum to improvements in the bilateral relationship.

Now, those were some specifics about the Egyptian-Israeli dialogue in which the United States has been playing a supportive role. We can't compel a decision.

We can't dictate the pace of the talks, but I think we have given ample evidence of our concern that these talks proceed and proceed expeditiously.

JORDAN'S ROLE IN THE PEACE PROCESS

On the peace process, much of 1985 was consumed with efforts on procedure to find ways to start a more general peace negotiation. They started with the initiative of King Hussein in late 1984 who pursued those efforts throughout 1985 until they came to a halt in February when he was unable to reach a clear understanding with Yassar Arafat, Chairman of the Palestinian Liberation Organization.

The King's efforts were unflagging. I think you and members of this committee are aware of the number of public statements made by him beginning as far as his statements in Washington were concerned, with his statement last May at the Rose Garden, his speech at the United Nations, his expression of readiness for prompt and direct negotiations with Israel.

The King throughout told us very frankly, "I cannot move alone. What is at issue are Palestinian questions and Palestinians must be involved with the PLO as the representative of the Palestinian people", which was a declaration made at the Arab summit back in 1974.

Those talks broke down in February and the King gave a major statement later that month that he did not find in the leadership the consistency and commitment that would be necessary to move ahead.

That has put all of us in the United States, in Jordan, in Israel, and among the Palestinians, into a period of reflection to try to find how to re-start the momentum. There is no master plan out there at the moment.

WEST BANK AND GAZA

There are a number of discussions that we are engaged in ongoing to find ways under what the Secretary has called the quality of life program to improve the status, economic status, social status of the Palestinians in the occupied territories, not a dodge of the political issues, but the political issues have shown themselves so intransigent in the recent past on how to broaden the peace process by bringing in Jordan and the Palestinians that we haven't been able to make much progress on those.

But in the meantime, to stimulate a better environment, we think that efforts should be made affecting the Palestinians. You asked—to complete that though, what are the prospects for movement, there was great concern in Cairo.

After all, Cairo took the lead, took the plunge with Camp David on the understanding there was not going to be a partial peace, a single step by Israel, it was going to lead to a broader peace involving Jordan, Syria, Lebanon for a comprehensive settlement, so Egypt is naturally concerned whenever there is a pause in efforts to solve the political issues.

The Egyptians are talking with the Jordanians, with the Palestinians trying to encourage them to get back together and see if they can't come up with a new approach.

King Hussein, deeply interested in finding a way to move ahead, has shown no signs of changing his opinion which he spoke about in his February speech, that he needs a commitment and a consistency which he didn't find in the PLO leadership.

Palestinians are divided on how to move ahead, uncertain what to do, still looking to the PLO as the legitimate representative of the Palestinian people, but increasingly disappointed that the PLO has not been able to act decisively when the political opportunities present themselves.

PROSPECTS FOR PEACE

But throughout the area, be it Cairo, Amman, Jordan, Riyadh, there is this effort to find a way to get things moving again. As we have said to each of them, we are ready to support and to contribute whatever we can in terms of ideas, political energy and will to help that process move.

I think on the bilateral issue which any American taxpayer has a right to ask, what is all of this investment getting us, it has gotten peace between Egypt and Israel. There have been criticisms about the coldness of the peace, the lack of content of the peace, but first of all there is peace. There continues to be a desire for peace very clearly throughout the state of Israel and the state of Egypt.

If after four wars in forty years there is still reticence, there is still suspicions of intentions, I don't think that is surprising, but that there is an earnest effort made by both governments to make that peace more solid and enduring is unquestionable.

My own contacts over these last two-and-a-half years have only reinforced my opinions on this. Are we just going through the motions? No.

As Secretary Shultz has said, we can't want peace more than those in the region. We can't impose peace. That has long been our policy, but the effort to find ways to assist the parties, both to enhance the present quality of peace between Egypt and Israel and to broaden that peace into negotiations involving the others with whom peace must also be established are ongoing.

So I think as a country our bona fides are well established in the region as wanting to help peace, wanting to help expand it and enrich it.

AMERICAN HOSTAGES IN LEBANON

You asked about the hostages, referring to our hostages in Lebanon, I assume. I regret after two years in the case of the citizen initially taken and it is almost a year since the last—six months since the last one was taken, I can report no progress or prospects on early release.

We are dealing with—have been since the inception—with a very small faction of the extremest wing of the Shiite movement in Lebanon. While it is influenced by Iran, it is influenced by Syria, the price it has asked from the beginning has been the release of members of its organization who were locked up in Kuwait back after the bombing of our embassies and the French embassies in 1983.

That is a price Kuwait is not willing to pay and that is a price we are not about to ask Kuwait to pay given the deaths that occurred at the hands of the terrorists operating in December 1983 in Kuwait.

Efforts are ongoing. They involve a number of governments, a number of intermediaries, but I don't want to come to you this morning with the assurance that we see an early prospect of their release. It could happen.

We will keep the pressure on. We will keep the search going.

U.S. MILITARY ACTION AGAINST LIBYA

On Libya, I don't have much to add to what has been said already, Mr. Chairman, on the damage assessment that is still not completed for the reasons that prevailed yesterday in terms of the cloud cover, just exactly what was accomplished in the bombings of the five targets.

Basic policy towards Libya is to drive home that terrorism will not be cost free. It has to get the message in unmistakeable terms to Colonel Qadhafi that we will do what must be done to respond to his continuing efforts which go far beyond his claim that he is the leading defender of the Palestinian cause.

Look at his efforts over the years with the Japanese Red Army, with the Irish Republican Army, the Philippines. His programs are much more radical and global in their extent.

We have tried over the last several years a program of increasing economic sanctions to isolate the country. That reached a climax in January with the tightest system of sanctions we could impose.

That was not enough. Our naval challenge program in February was designed to asset the principle of freedom of navigation. I won't go into the details on that which you are fully familiar with.

Our response two days ago and the raid attacks on those five targets were to hit at targets which we have ample reason to consider have been principal support bases either for training or supplying his terrorist operations around the region, in Europe and further afield.

I think it was the President who said the other night we tried quiet diplomacy, we tried public condemnation, economic sanctions and demonstrations of military force. None have succeeded in getting Qadhafi to change his unacceptable policies and actions.

I think we are in this for the long pull and we will take whatever actions may be necessary in the future to drive this home. We are not trying to assassinate Colonel Qadhafi. We are not trying to pick for the Libyan people the leadership they ought to have.

We think they can do better, but that is not going to be our choice. But it has to get across to him in particular, to those immediately around him and to those who express or are unwilling to join in active programs of control of terrorism that we will be resolute and we will not hesitate to use what may be necessary to keep driving this message home.

I am not pessimistic about the results except to add that I think you can count on seeing further actions out of Libya. We have some 30 active targets we have identified that Libya is pursuing as far as American installations are concerned.

That was the case before the midnight military action the other day. They are still alive in Libya planning. Do we think we can isolate him?

Yes, I think increasingly. I think you can see a public awareness among our allies, the outspoken support of Prime Minister Thatcher. I can't go into some of the private comments made to us, both in Europe and the Arab world, but I think there is an awareness now that he is headed on a course which is destructive not only of Libya's interests and the prime cost is being borne by Libya itself for his leadership, but an awareness that more has to be done around the world, not just against Libya but on the question of international terrorism.

I think you asked the effect in the short term, the medium term. The short term may be to stimulate further terrorism. We have had to take that into account. Somewhat longer range term, I am optimistic that this growing awareness both public and official in the region, in Europe, will have results, the results that we have been aiming at over the last several years. I would hold it there.

[The written statements of Mr. Murphy, and Mr. Greenleaf follow:]

STATEMENT OF
RICHARD W. MURPHY
ASSISTANT SECRETARY
FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS
DEPARTMENT OF STATE
BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE
ON FOREIGN OPERATIONS
WEDNESDAY, APRIL 16, 1986

I WELCOME THIS OPPORTUNITY TO TESTIFY IN SUPPORT OF THE ADMINISTRATIONS'S PROPOSALS FOR FISCAL YEAR 1987 ECONOMIC AND SECURITY ASSISTANCE FOR THE MIDDLE EAST AND NORTH AFRICA.

THIS YEAR, MORE THAN ANY YEAR SINCE I HAVE SERVED AS ASSISTANT SECRETARY, THE CONGRESS AND ADMINISTRATION FEEL THE BUDGET SQUEEZE. LIKE YOU, WE IN THE NEAR EAST AND SOUTH ASIA BUREAU UNDERSTAND THAT WHEN WE ADD MONEY TO ONE ACCOUNT, IT MUST COME OUT OF ANOTHER. CUTS ARE PAINFUL. REDUCTIONS HAVE COSTS, WHETHER THEY COME FROM AGRICULTURE, EDUCATION, HEALTH OR THE FOREIGN ASSISTANCE BUDGET. I AM NOT HERE TODAY TO PLEAD THAT SECURITY ASSISTANCE MUST BE REGARDED AS A HIGHER PRIORITY THAN FARMERS OR THE ELDERLY -- OR TO PUSH FOR LARGE INCREASES DURING THIS TOUGH PERIOD. INSTEAD, I WOULD LIKE TO REVIEW THE BENEFITS WE AS A NATION DO RECEIVE FROM SECURITY ASSISTANCE.

THE PRIMARY GOAL OF OUR FOREIGN ASSISTANCE PROGRAM IS THE SUPPORT OF FRIENDLY STATES WITH COMMON INTERESTS IN PROMOTING ECONOMIC AND POLITICAL STABILITY. COMPARED TO INTERNATIONAL TRADE AND OTHER FINANCIAL FLOWS, OUR PROGRAMS ARE NOT LARGE.

BUT THEY PROVIDE CRITICAL REINFORCEMENT TO POLICIES AND INSTITUTIONS THAT WE ARE COMMITTED TO SUPPORT IN PRINCIPLE AS A GLOBAL POWER EXERTING INFLUENCE TO PROTECT LEGITIMATE INTERESTS, AND NOT MERELY REACTING TO EVENTS. THE RECIPROCAL BENEFIT TO US AND OUR FRIENDS IS THE BASIS OF OUR FOREIGN ASSISTANCE PROPOSALS.

THE REQUEST FOR THE MIDDLE EAST AND NORTH AFRICA IS $5.823 BILLION OR 36 PERCENT OF THE ADMINISTRATION'S GLOBAL REQUEST FOR FISCAL YEAR 1987.

-- MUCH OF OUR ASSISTANCE IS PROPOSED FOR ISRAEL. OUR COMMITMENT TO ISRAEL'S SECURITY AND ECONOMIC REQUIREMENTS IS ROCK SOLID.

-- WE SUPPORT THE SECURITY NEEDS OF EGYPT, ISRAEL, AND JORDAN WHO HAVE TAKEN RISKS FOR PEACE AND FOR STABILITY IN THAT STRATEGIC REGION.

-- WE ARE PROTECTING THE FREE WORLD'S ACCESS TO OIL RESOURCES IN THE STRATEGIC GULF REGION IN COOPERATION WITH FRIENDLY ARAB STATES IN THE GULF. OUR ASSISTANCE TO OMAN CONTRIBUTES TO THIS EFFORT.

-- Our programs parallel our interest in maintaining military access rights in Morocco and the security of long-time friends in North Africa -- Morocco and Tunisia.

-- The recent instability in South Yemen, exacerbated by Soviet interference, makes our assistance to the Yemen Arab Republic particularly significant at this time.

Our fiscal year 1987 request will fund seven major programs in the Middle East and North Africa:

-- $3.295 billion in Foreign Military Sales Credit (FMS) including $3.1 billion for Israel and Egypt

-- $165 million in grant Military Assistance Programs (MAP)

-- $10.4 million in International Military Education and Training (IMET)

-- $2.015 billion in Economic Support Funds (ESF) for Israel and Egypt.

-- $104 million in Economic Support Funds for six other Middle Eastern countries and the West Bank and Gaza territories

-- $48.3 MILLION IN DEVELOPMENT ASSISTANCE (DA) AND

-- $254.9 MILLION IN PL 480 FOOD AID.

MIDDLE EAST PEACE: THE SECURITY OF ISRAEL REMAINS THE CORNERSTONE OF OUR MIDDLE EAST POLICY. OUR ASSISTANCE ASSURES ISRAEL'S DEFENSIVE CAPABILITIES -- ITS QUALITATIVE EDGE IN THE REGION. IN ADDITION, EFFORTS TO NURTURE THE SPIRIT OF ACCOMMODATION BETWEEN ISRAEL AND ITS ARAB NEIGHBORS WILL SUCCEED MORE READILY IF ARAB STATES FEEL CONFIDENT THEY CAN PROVIDE FOR THEIR OWN DEFENSE VIS-A-VIS INCREASED INSTABILITY CAUSED BY THE IRAN-IRAQ WAR, LIBYAN AGGRESSION, AND SOVIET EXPANSION. OUR FRIENDS NEED HELP AS THEY WORK TO MANAGE ECONOMIC AND SOCIAL ISSUES. DEFENSIVE CAPABILITIES AND ECONOMIC DEVELOPMENT ARE KEY TO STABILITY AND IMPROVED RELATIONS AMONG OUR FRIENDS IN THE MIDDLE EAST.

WE ARE SEEKING A TOTAL OF $5.3 BILLION IN MILITARY AND ECONOMIC ASSISTANCE FOR ISRAEL AND EGYPT. MEETING THEIR LEGITIMATE DEFENSIVE REQUIREMENTS IS CRITICALLY IMPORTANT TO MAINTAINING OUR SECURITY ROLE THROUGHOUT THE REGION AND TO PRESERVING OUR ROLE AS MEDIATOR IN THE SEARCH FOR PEACE.

SINCE THE PRESIDENT'S MIDDLE EAST PEACE INITIATIVE OF SEPTEMBER 1, 1982, FOREIGN ASSISTANCE, IN CONCERT WITH AN ACTIVE

DIPLOMACY, HAS PLAYED AN ESSENTIAL ROLE IN SUSTAINING THE PEACE PROCESS. A RESOLUTION OF THE ARAB-ISRAELI CONFLICT REQUIRES BOTH A COMMITMENT TO THE SECURITY AND ECONOMIC WELL-BEING OF ISRAEL AS WELL AS CONTINUED CLOSE TIES WITH THOSE ARAB STATES WHICH HAVE TRADITIONALLY BEEN FRIENDLY TO THE U.S. RESOLUTION OF THESE PROBLEMS, ASPECTS OF WHICH ARE DEEP SEATED AND COMPLEX, WILL NEVER BE EASY. NOTWITHSTANDING THE RISKS AND THE COSTS, THIS ADMINISTRATION WILL CONTINUE TO SEEK OPPORTUNITIES THROUGH ALL OF OUR FRIENDS IN THE REGION TO MOVE FORWARD WITH A POLICY THAT IS IN THE NATIONAL INTEREST OF THE UNITED STATES AND ITS PARTNERS.

PROGRESS INITIATED AT CAMP DAVID AND THE EGYPTIAN-ISRAELI PEACE TREATY ARE THE FOUNDATION OF OUR MIDDLE EAST PEACE POLICY. IN OUR FOREIGN ASSISTANCE PROPOSAL, EGYPT AND ISRAEL TOGETHER WOULD RECEIVE ABOUT 34 PERCENT OF WORLDWIDE FUNDING IN FISCAL YEAR 1987. THESE LEVELS REFLECT THE IMPORTANCE WE GIVE TO THE ECONOMIC AND SECURITY PREREQUISITES OF ACCEPTING THE RISKS AND TAKING THE NECESSARY STEPS TOWARDS A LASTING PEACE.

OUR LONG-TERM ASSISTANCE COMMITMENTS IN JORDAN, LEBANON, THE WEST BANK AND GAZA, THOUGH MODEST IN COMPARISON TO THE ASSISTANCE LEVELS FOR ISRAEL AND EGYPT, ARE ESSENTIAL TO SUSTAINING OUR OVERALL MIDDLE EAST PEACE EFFORTS. OUR ASSISTANCE TO JORDAN IS

TANGIBLE EVIDENCE OF OUR CONCERN FOR THE ECONOMY AND SECURITY OF THIS SMALL COUNTRY WHICH HAS WORKED HARD TO FIND A FORMULA FOR DIRECT TALKS WITH ISRAEL. IN LEBANON, OUR REQUEST WILL ASSIST MODERATE ELEMENTS IN RECONSTRUCTION EFFORTS IN WAR-RAVAGED PARTS OF THE COUNTRY. PART OF OUR MIDDLE EAST REGIONAL PROGRAM ADDRESSES THE QUALITY OF PALESTINIAN LIFE IN THE OCCUPIED WEST BANK AND GAZA. OUR HUMANITARIAN CONCERN FOR THESE PEOPLE IS REFLECTED IN DEVELOPMENT PROJECTS CARRIED OUT BY PRIVATE VOLUNTARY ORGANIZATIONS.

MR. CHAIRMAN, WE ARE DEEPLY CONCERNED ABOUT ECONOMIC DETERIORATION IN THE MIDDLE EAST AND THE ADVERSE EFFECT THIS COULD HAVE ON REGIONAL STABILITY AND THE PROSPECTS FOR PEACE. MANY OF OUR FRIENDS IN THE REGION ARE FACING SERIOUS ECONOMIC DISLOCATIONS. REDUCED WORKER REMITTANCE FLOWS, LOWER REVENUES FROM OIL EXPORTS, AND DECLINING TOURISM INCOME AS A RESULT OF TERRORIST THREATS ARE ALL TAKING THEIR TOLL. IN VIEW OF THE PRESENT CONSTRAINTS ON THE FOREIGN ASSISTANCE BUDGET AS WELL AS THE EXISTING DEVELOPMENT NEEDS OF THE REGION, WE ARE ENCOURAGING INCREASED BILATERAL ASSISTANCE TO THE MIDDLE EAST BY OTHER DONORS IN ADDITION TO NEW MULTILATERAL APPROACHES. WE ARE ENGAGED IN ONGOING DISCUSSIONS WITH OUR FRIENDS AND ALLIES TO FIND WAYS TOGETHER TO SHORE UP THE AILING ECONOMIES OF THE MIDDLE EAST.

I WOULD LIKE TO TURN NOW TO SPECIFIC COUNTRIES AND THE WAY IN WHICH OUR FOREIGN ASSISTANCE PROGRAMS ARE WORKING FAVORABLY TO MANAGE OUR INTERESTS. I WILL BEGIN WITH ISRAEL.

ISRAEL: OUR ASSISTANCE PROGRAMS IN ISRAEL WILL PROVIDE GENEROUS SUPPORT FOR ISRAEL'S MILITARY PREPAREDNESS AND ECONOMIC STABILITY. THE $1.8 BILLION FMS REQUEST FOR FISCAL YEAR 1987 WILL ENABLE ISRAEL TO FINANCE PRIORITY SECURITY REQUIREMENTS. THIS INCLUDES HIGH PERFORMANCE AIRCRAFT, HELICOPTERS, ARTILLERY MISSILES AND AMMUNITION. ISRAEL'S MILITARY PREPAREDNESS IS SUCH THAT IT CAN DEFEND ITSELF AGAINST ANY POSSIBLE COMBINATION OF ADVERSARIES IN THE REGION. THE ALL GRANT TERMS OF THE FMS PROGRAM FOR ISRAEL LESSENS THE ECONOMIC IMPACT OF DEFENSE EXPENDITURES BY FACILITATING ISRAEL'S EFFORTS TO REDUCE ITS BALANCE OF PAYMENTS DEFICIT, CONTROL ITS FOREIGN DEBT, AND CORRECT ECONOMIC IMBALANCES.

OUR REQUEST FOR $1.2 BILLION IN ESF DIRECTLY ADDRESSES ISRAEL'S ECONOMIC PROBLEMS THROUGH CASH TRANSFERS TO MEET SHORT TERM BALANCE OF PAYMENTS REQUIREMENTS, MAINTAIN BUDGETED FOREIGN EXCHANGE EXPENDITURES, AND IMPORT THE GOODS AND SERVICES IT NEEDS WITHOUT MASSIVE BORROWING AT MARKET RATES. THE ESF PROGRAM MAKES US PARTNERS WITH ISRAEL IN ENCOURAGING ECONOMIC REFORM TO ASSURE LONG-TERM GROWTH OF THE ISRAELI ECONOMY. WE HAVE ESTABLISHED A DIALOGUE WITH THE ISRAELI GOVERNMENT THROUGH THE JOINT

ECONOMIC DEVELOPMENT GROUP (JEDG) THAT MEETS REGULARLY SO THAT TOGETHER WE CAN ASSESS HOW TO PROVIDE MAXIMUM SUPPORT FOR ISRAEL'S STABILIZATION AND GROWTH AGENDA.

PRIME MINISTER PERES ANNOUNCED ON JULY 1 A COMPREHENSIVE SET OF MEASURES TO DEAL WITH THE TWIN PROBLEMS OF INFLATION AND BALANCE OF PAYMENTS DEFICITS. THE BASIC ELEMENTS INCLUDE SHARP CUTS IN GOVERNMENT SPENDING ON SUBSIDIES ON CONSUMER GOODS AND SERVICES, REDUCTIONS IN REAL WAGES, A 19 PERCENT DEVALUATION OF THE SHEKEL, AND A PRICE FREEZE. THE GOVERNMENT IS MAKING A CONCERTED EFFORT TO IMPLEMENT THIS PROGRAM AND CONSIDERABLE PROGRESS HAS BEEN MADE. THE BUDGET DEFICIT IS DOWN AND THERE HAS BEEN A SHARP DECLINE IN INFLATION.

THE PROGRAM'S IMPACT ON THE BALANCE OF PAYMENTS HAS ALSO BEEN IMPRESSIVE. ISRAEL'S FOREIGN DEBT ALSO STABILIZED. MOREOVER, THE ISRAELI PROGRAM HAS ACHIEVED THESE OBJECTIVES WITHOUT A SHARP ESCALATION IN UNEMPLOYMENT, WHICH APPEARS TO HAVE PEAKED DURING THE THIRD QUARTER OF 1985 AT 7.8 PERCENT AND HAS SINCE DROPPPED TO 6.8 PERCENT OR LOWER.

NOTWITHSTANDING THE CONSID--ABLE PROGRESS MADE SO FAR, THE STABILIZATION PROGRAM REMAINS FRAGILE. THE GOVERNMENT WILL HAVE TO CONTINUE TO MAINTAIN CONTROL OVER SPENDING AND WORK OUT A NEW

AGREEMENT WITH LABOR (HISTRADUT) ON INCOME POLICY WHILE RESISTING POLITICAL PRESSURES TO REFLATE. THE POLITICAL PRESSURE FOR PUMP PRIMING HAS INCREASED IN VIEW OF THE RECENT SUCCESSES OF THE STABILIZATION PROGRAM AND THE IMPACT OF THE RECESSION ON THE FINANCIAL VIABILITY OF KEY FIRMS AND SECTORS. GROWTH IS NOW A TOP PRIORITY OF THE PERES GOVERNMENT -- TO PROVIDE WHAT THE PRIME MINISTER CALLED A "RAY OF HOPE" FOR THE ISRAELI PUBLIC IN A MORE PROSPEROUS FUTURE.

WITH THESE DEVELOPMENTS IN MIND, THE FOCUS OF THE U.S.-ISRAELI DIALOGUE IN THE JOINT ECONOMIC DEVELOPMENT GROUP HAS SHIFTED INCREASINGLY TO FINDING WAYS TO PROMOTE GROWTH AND DEVELOPMENT WHILE NOT ENDANGERING THE STABILIZATION PROGRAM. IN THIS FORUM WE HAVE DISCUSSED ISRAELI TAX REFORM AND REVITALIZATION OF PRIVATE CAPITAL MARKETS. WE ALSO LOOKED CLOSELY AT ISRAEL'S INVESTMENT REGIME. DOMESTIC INVESTMENT IN ISRAEL HAS BEEN DECLINING AS A PERCENTAGE OF GNP WHILE FOREIGN INVESTMENT REMAINS SMALL. ISRAEL MUST REVERSE THESE TRENDS IF IT IS TO MAINTAIN ITS COMPETETIVE EDGE IN SUCH AREAS AS THE HIGH TECHNOLOGY SECTOR AND EARN ITS WAY WITHOUT CONTINUED DEPENDENCE ON U.S. ECONOMIC ASSISTANCE.

WE HAVE OVER THE PAST SIX MONTHS INCREASED OUR COORDINATION WITH OPERATION INDEPENDENCE, A GROUP OF HIGHLY DEDICATED U.S. AND ISRAELI BUSINESSMEN UNDER THE LEADERSHIP OF MAX FISHER

WHOSE OBJECTIVE IS TO EXPAND BILATERAL TRADE AND INVESTMENT TIES BETWEEN OUR TWO COUNTRIES. OPERATION INDEPENDENCE HAS ALREADY ACHIEVED CONCRETE RESULTS IN THAT REGARD AND WE BELIEVE IT HOLDS GREAT PROMISE OF EXPANDING ISRAEL'S PRIVATE SECTOR AND GENERATING MORE ECONOMIC GROWTH.

EGYPT: A STRONG AND STABLE EGYPT IS CRUCIAL TO VIRTUALLY ALL OF OUR INTERESTS IN THE MIDDLE EAST AND NORTH AFRICA. IN ADDITION TO BEING A CAMP DAVID PARTNER, EGYPT IS A COUNTERWEIGHT TO LIBYAN MEDDLING IN THE SUDAN, CHAD AND TUNISIA. OUR SECURITY ASSISTANCE TO EGYPT PROMOTES READINESS AND MILITARY SELF-SUFFICIENCY NECESSARY FOR DEFENSE AGAINST SOVIET-ARMED RADICAL STATES IN THE REGION.

THE REQUEST FOR $1.3 BILLION IN FORGIVEN FMS CREDITS FOR FISCAL YEAR 1987 IS PART OF AN ONGOING EFFORT TO MODERNIZE THE EGYPTIAN MILITARY AND REPLACE OBSOLETE SOVIET EQUIPMENT. OUR FMS PROGRAM ADDRESSES THE REGIONAL BALANCE OF FORCES AND HELPS OUR FRIENDS COUNTER THE ARMS BUILD-UP IN SOVIET SUPPLIED STATES. FOR FISCAL YEAR 1987, IN ADDITION TO PROGRESS PAYMENTS FOR PREVIOUS PURCHASES OF U.S. EQUIPMENT, WE PROPOSE UPGRADES FOR EGYPT'S AIR DEFENSE SYSTEMS AND EQUIPMENT MAINTENANCE.

OUR SECURITY INTERESTS GO HAND-IN-HAND WITH EGYPT'S ECONOMIC HEALTH AND STABILITY. ECONOMIC SUPPORT FUNDS OF

$815 MILLION WILL FINANCE ECONOMIC DEVELOPMENT PROJECTS AS WELL AS PROVIDE VALUABLE BALANCE OF PAYMENTS SUPPORT.

ALTHOUGH EGYPT'S ECONOMIC GROWTH RATE WAS 4 TO 5 PERCENT LAST YEAR, THE ECONOMY IS BESET BY SEVERE STRUCTURAL PROBLEMS. THE OVERALL BALANCE OF PAYMENTS MOVED INTO DEFICIT IN 1985, SIGNALLING THE NEED FOR INCREASED BORROWING. IN RECENT MONTHS, EVENTS LARGELY BEYOND EGYPT'S CONTROL HAVE COMPOUNDED THESE PROBLEMS, AND NO IMPROVEMENT IS FORESEEN IN THE NEAR TERM. EGYPT'S PETROLEUM REVENUES ARE DOWN SHARPLY WITH THE PRECIPITOUS FALL IN OIL PRICES, AND TOURISM HAS BEEN CRIPPLED BY TERRORIST INCIDENTS AND THE FEBRUARY DISTURBANCES. REMITTANCES FROM OVERSEAS WORKERS -- ANOTHER KEY SOURCE OF FOREIGN EXCHANGE -- HAVE FALLEN WITH THE SLOWDOWN IN THE GULF ECONOMIES.

OUR ECONOMIC ASSISTANCE IS PART OF A DIALOGUE THAT WE HAVE ESTABLISHED WITH EGYPT TO SUPPORT ITS ECONOMIC REFORM PROGRAM. ONE TARGET FOR REFORM IS A LOWER BUDGET DEFICIT. HOWEVER, EGYPT'S DEFICIT IS ABOUT 20 PERCENT OF GDP, AND POLITICALLY SENSITIVE FOOD SUBSIDIES ACCOUNT FOR ALMOST ONE-THIRD OF THE DEFICIT.

OVER THE PAST YEAR, EGYPT HAS TAKEN SOME IMPORTANT STEPS TO REFORM ITS ECONOMY:

-- FOOD SUBSIDIES HAVE BEEN REDUCED; FOR EXAMPLE, WHEAT PRICES NOW APPROACH U.S. LEVELS;

-- ENERGY SUBSIDIES HAVE BEEN CUT BY SUCH MEASURES AS A 37 PERCENT INCREASE IN ELECTRICITY RATES AND A 25 PERCENT INCREASE IN GASOLINE PRICES;

-- FOREIGN CURRENCY EXPENDITURES OF THE GOVERNMENT HAVE BEEN REDUCED.

MORE RECENTLY, DESPITE THE FEBRUARY DISTURBANCES, PRESIDENT MUBARAK AFFIRMED HIS GOVERNMENT'S COMMITMENT TO ACCELERATE ECONOMIC REFORM. NEW MEASURES -- INCLUDING TAX INCREASES, CUSTOMS REFORM, AND REDUCTION OF GOVERNMENT OPERATING EXPENSES -- ARE BEING IMPLEMENTED. THESE INITIATIVES REPRESENT A SOLID BEGINNING TO THE COMPREHENSIVE REFORM PROGRAM THAT IS NECESSARY TO ADDRESS EGYPT'S IMMEDIATE PROBLEMS AND ACHIEVE STABLE, LONG-TERM ECONOMIC GROWTH. PRIORITY AREAS FOR FURTHER ACTION INCLUDE BOOSTING FOREIGN EXCHANGE EARNINGS, REDUCTION OF THE GOVERNMENT BUDGET DEFICIT, IMPROVING THE MANAGEMENT OF FOREIGN DEBT, AND EXPANDING THE ROLE OF THE PRIVATE SECTOR.

EGYPT IMPORTS ABOUT SIX MILLION TONS OF WHEAT AND WHEAT FLOUR EACH YEAR, AROUND 20 PERCENT OF WHICH IS PART OF OUR PL 480 FOOD AID PROGRAM. WITH PER CAPITA GNP AT ABOUT $650 AND

POLITICAL STABILITY HEAVILY DEPENDENT ON THE PRICE OF BREAD. EGYPT MUST SPEND MUCH OF ITS FOREIGN EXCHANGE EARNINGS ON IMPORTED GRAIN. WITH FOREIGN EXCHANGE EARNINGS IN DECLINE, OUR PL 480 PROGRAM BECOMES AN IMPORTANT MEANS OF MINIMIZING THE OUTFLOW OF FOREIGN EXCHANGE WHILE THE EGYPTIAN GOVERNMENT TACKLES THE IMMEDIATE PROBLEM OF MANAGING ITS ECONOMIC REFORM MEASURES AND ITS DEBT REPAYMENTS.

JORDAN: JORDAN IS IMPORTANT TO US AS A MODERATE, PRO-WESTERN STATE THAT PLAYS A KEY ROLE IN THE SEARCH FOR A NEGOTIATED SETTLEMENT TO THE ARAB-ISRAELI CONFLICT. KING HUSSEIN HAS PUBLICLY RECOGNIZED ISRAEL'S RIGHT TO EXIST AND HAS SOUGHT SCRUPULOUSLY TO MAINTAIN THE SECURITY OF JORDAN'S BORDER WITH ISRAEL. BY REESTABLISHING FULL DIPLOMATIC RELATIONS WITH EGYPT IN NOVEMBER, 1984 -- THE FIRST ARAB STATE TO DO SO -- AND BY TRYING TO FIND CREDIBLE PALESTINIANS TO SEEK A NEGOTIATED PEACE WITH ISRAEL, JORDAN HAS REPEATEDLY DEMONSTRATED ITS WILLINGNESS TO UNDERTAKE COURAGEOUS INITIATIVES TOWARD A NEGOTIATED RESOLUTION. JORDAN'S ABILITY TO SUSTAIN ITS RECORD AS AN ACTIVE PARTICIPANT IN THE PEACE PROCESS IS CONTINGENT ON OUR WILLINGNESS TO ASSIST IN MEETING ITS LEGITIMATE DEFENSE NEEDS. A CHORUS OF REJECTIONIST VOICES IN THE REGION NOW ADVISE JORDAN TO CEASE ITS RELIANCE ON U.S. ASSISTANCE AND ABANDON ITS ROLE IN THE PEACE PROCESS. MOST ASSUREDLY, KING HUSSEIN HAS NOT ABANDONED HIS COMMITMENT TO PEACE. FOR OUR

PART. WE INTEND TO CONTINUE OUR ASSISTANCE TO COUNTRIES SUCH AS JORDAN, WHERE OUR SECURITY AND ECONOMIC ASSISTANCE PROVIDES BOTH A TANGIBLE AS WELL AS PSYCHOLOGICAL BUFFER AGAINST REJECTIONISM. WE MUST PREVENT JORDAN FROM BEING DISTRACTED WHILE IT CONFRONTS THE DIFFICULT POLITICAL CHOICES AHEAD. THE JORDANIAN GOVERNMENT IS GRATEFUL FOR THE $250 MILLION ECONOMIC SUPPLEMENTAL PACKAGE WHICH CONGRESS PASSED FOR JORDAN LAST SUMMER TO ASSIST IN PRESERVING JORDAN'S ECONOMIC STABILITY.

FOREIGN WORKER REMITTANCES FROM THE GULF STATES AND EXPORTS TO THE GULF ARE DECLINING WITH THE SOFT MARKET IN OIL; ARAB ASSISTANCE IS ALSO LIKELY TO DECLINE. THE IRAN-IRAQ WAR CONTRIBUTES TO THE CONTINUED ECONOMIC SLOWDOWN AND UNEMPLOYMENT IN JORDAN THAT BEGAN IN 1981. SOVIET ARMS TRANSFERS TO NEIGHBORING SYRIA REPRESENT A DIRECT POTENTIAL THREAT TO JORDAN.

DESPITE THESE DIFFICULTIES, JORDAN CONTINUES TO PURSUE RESPONSIBLE REGIONAL POLICIES. IN A SEPTEMBER, 1985 ADDRESS TO THE UNITED NATIONS GENERAL ASSEMBLY, KING HUSSEIN REAFFIRMED JORDAN'S COMMITTMENT TO A NEGOTIATED PEACE WITH ISRAEL -- A COMMITMENT THAT JORDAN AND ITS LEADERS HAVE AFFIRMED YET AGAIN MORE RECENTLY WITH THE KING'S FEBRUARY, 1986 SPEECH TO THE JORDANIAN PEOPLE.

JORDAN HAS HAD A MILITARY SUPPLY RELATIONSHIP WITH THE UNITED STATES FOR THIRTY YEARS. THE PROPOSED MILITARY ASSISTANCE PROGRAM FOR FISCAL YEAR 1987 CONSISTS OF $115 MILLION IN FMS CREDITS AND $2 MILLION FOR IMET. TO PROVIDE A DEGREE OF RELIEF FOR JORDAN'S BALANCE OF PAYMENTS PROBLEMS, OUR FMS PROGRAM WILL INCLUDE $65 MILLION IN CONCESSIONAL FMS CREDITS AND $50 MILLION IN TREASURY RATE FMS. THE PROPOSED MILITARY ASSISTANCE WILL SUSTAIN JORDAN'S ABILITY TO PURCHASE SPARE PARTS AND FOLLOW-ON SUPPORT FOR U.S. EQUIPMENT ALREADY IN JORDAN'S INVENTORY. THE FMS PROGRAM WILL SUPPORT JORDAN'S DEFENSE NEEDS TO THE FULLEST EXTENT POSSIBLE. THE MILITARY TRAINING PROGRAMS UNDER IMET WILL PROVIDE JORDANIAN OFFICERS WITH A U.S. ORIENTATION AND ENHANCE JORDANIAN UNDERSTANDING OF U.S. GOALS AND OPERATIONS IN THE MIDDLE EAST.

JORDAN IS POOR IN NATURAL RESOURCES; THE LACK OF WATER LIMITS THE AMOUNT OF ARABLE LAND. THE FISCAL YEAR 1987 ESF REQUEST FOR $18 MILLION WILL FUND HIGHLANDS AGRICULTURE PROJECTS AND WATER RESOURCES DEVELOPMENT IN ADDITION TO ONGOING PROJECTS IN THE AREAS OF WATER, SEWERAGE SERVICES, AGRICULTURAL PRODUCTIVITY, HEALTH AND TECHNICAL TRAINING.

MIDDLE EAST REGIONAL PROGRAM: THE MIDDLE EAST REGIONAL PROGRAM REQUEST FOR FISCAL YEAR 1987 CONSISTS OF $25 MILLION IN

ESF, $4 MILLION IN DEVELOPMENT ASSISTANCE, AND $1.8 MILLION IN PL 480 (TITLE II) GRANT FOOD AID. THE REGIONAL PROGRAM INCLUDES PROJECTS DESIGNED TO FURTHER U.S. OBJECTIVES OF PEACE, ECONOMIC DEVELOPMENT, AND SOCIAL PROGRESS IN THE WEST BANK AND GAZA, ISRAEL, EGYPT, AND THE REGION. THIS GRANT WILL FINANCE THREE MAJOR ACTIVITIES:

$18 MILLION IN ESF WILL FUND DEVELOPMENT PROJECTS IN THE WEST BANK AND GAZA. OUR INVOLVEMENT REFLECTS COMMITMENT TO THE WELFARE OF PALESTINIANS LIVING IN THE OCCUPIED TERRITORIES. MANDATED BY CONGRESS IN 1975, THESE DEVELOPMENT PROJECTS ARE CARRIED OUT BY PRIVATE VOLUNTARY ORGANIZATIONS AND DESIGNED TO MEET LOCAL NEEDS IN HEALTH, SANITATION, AGRICULTURAL DEVELOPMENT, WATER SUPPLY, VOCATIONAL TRAINING AND EDUCATION. THE PROJECTS SUPPORT DEVELOPMENT OF AN INDIGENOUS ECONOMIC STRUCTURE AND OTHER ASPECTS OF THE SECRETARY'S QUALITY OF LIFE EFFORT, WHICH IS TANGIBLE EVIDENCE OF OUR LONG-TERM COMMITMENT. OUR PL 480 FOOD AID PROGRAM IN THESE TERRITORIES SUPPORT THE SAME GOALS.

WE ARE FULLY AWARE THAT THESE PROGRAMS ARE NO SUBSTITUTE FOR A NEGOTIATED SETTLEMENT THAT CAN ENSURE ISRAEL'S SECURITY WHILE GIVING EXPRESSION TO THE LEGITIMATE RIGHTS OF THE PALESTINIANS IN THESE TERRITORIES -- NOR ARE THEY INTENDED TO DO SO. WE ARE PREPARED TO ADDRESS THE POLITICAL DIMENSION OF

THE PALESTINIAN ISSUE WHENEVER THE PARTIES THEMSELVES ARE READY. IN THE MEANTIME, WE ARE ACTIVELY ADDRESSING THE HUMAN DIMENSION. THESE PROGRAMS HAVE THE FULL SUPPORT OF THE HIGHEST LEVELS OF THE U.S. GOVERNMENT AND, AS CIRCUMSTANCES AND BUDGET REALITIES ALLOW, WE ARE PREPARED TO DO EVEN MORE.

$5.8 MILLION IN ESF WILL FUND THE REGIONAL COOPERATION PROGRAM, WHICH CONSISTS OF SCIENTIFIC AND TECHNICAL PROJECTS IN WHICH ISRAELI, EGYPTIAN, AND AMERICAN UNIVERSITIES PARTICIPATE, ALONG WITH THEIR RESPECTIVE GOVERNMENTS AND OTHER INSTITUTIONS. MANDATED BY CONGRESS IN 1979 AFTER THE SIGNING OF THE EGYPT-ISRAEL PEACE TREATY, THESE COUNTERPART PROJECTS IN EGYPT AND ISRAEL PROMOTE COOPERATION BETWEEN PROFESSIONALS IN TECHNICAL AND SCIENTIFIC FIELDS. THE PROGRAM COMPRISES PROJECTS IN ARID LANDS AGRICULTURE, AGRICULTURAL TECHNOLOGY EXCHANGE , MARINE SCIENCES, AND INFECTIOUS DISEASE RESEARCH. WE NOTE THAT FOR FISCAL YEAR 1986, THE 50 PERCENT REDUCTION IN FUNDING FOR THIS PROGRAM WILL NOT TRANSLATE INTO A COMPARABLE REDUCTION IN ONGOING PROJECTS. RATHER, IT MEANS THAT NO FUNDS WILL BE AVAILABLE THIS YEAR FOR NEW PROJECTS AND ONLY MINOR REDUCTIONS IN ONGOING ACTIVITIES.

THE REMAINING $1.2 MILLION IN ESF WILL FUND REGIONAL POPULATION PROGRAMS, LEGAL TRAINING PROJECTS, AND PROJECT DESIGN AND EVALUATION.

PERSIAN GULF/SOUTHWEST ASIA/NORTH AFRICA: THE MAJOR OIL RESERVES IN THE PERSIAN GULF CONTINUE TO BE ESSENTIAL TO UNITED STATES ENERGY SECURITY AND WE CANNOT ALLOW OUR VIGILANCE TO LAPSE NO MATTER WHAT LEVEL OIL PRICES REACH. APPROXIMATELY 35 PERCENT OF THE OIL ENTERING WORLD TRADE ORIGINATES IN THE PERSIAN GULF. THIS AREA CONTINUES TO BE THREATENED BY THE IRAN-IRAQ WAR, NOW IN ITS SIXTH YEAR. THE RECENT COUP IN SOUTH YEMEN HAS LEFT THAT COUNTRY WITH AN EVEN MORE RADICAL REGIME AND UNDER CONTINUED HEAVY SOVIET INFLUENCE. SOVIET AGGRESSION IN AFGHANISTAN HAS NOT DIMINISHED AND THIS SITUATION, TOO, THREATENS TO ENCROACH ON THE PERSIAN GULF REGION. OUR ASSISTANCE PROGRAMS TO COUNTRIES IN THIS PART OF THE WORLD SUPPORT ESSENTIAL ACCESS TO MILITARY FACILITIES AND TRANSIT INTO THE REGION SHOULD THEY EVER BE REQUIRED BY U.S. FORCES IN TIMES OF CRISIS.

OMAN: OUR FISCAL YEAR 1987 REQUEST FOR OMAN INCLUDES $40 MILLION IN FMS CREDITS, $18.8 MILLION IN ESF, AND $205 THOUSAND IN IMET.

OUR 1980 ACCESS AGREEMENT WITH OMAN IS KEY TO U.S. STRATEGY FOR THE PROTECTION OF THE PERSIAN GULF. THIS AGREEMENT ALLOWS U.S. MILITARY ACCESS TO CERTAIN FACILITIES UNDER AGREED CONDITIONS. IN CONNECTION WITH THE FACILITIES AGREEMENT, THE U.S. AND OMAN ADDED AN ECONOMIC DIMENSION TO THE

EXPANDED RELATIONSHIP BY CREATING A JOINT COMMISSION ON ECONOMIC AND TECHNICAL COOPERATION AND SEVERAL DEVELOPMENT PROJECTS TO BE SUPPORTED BY ESF. BECAUSE OF THE RELATIONSHIP BETWEEN ESF AND THE ACCESS AGREEMENT, THE OMANI GOVERNMENT IS CONCERNED BY THE REDUCTION IN OUR FISCAL YEAR 1986 PROGRAM WHICH RESULTED FROM THIS PARTICULARLY DIFFICULT BUDGET YEAR. WE BELIEVE IT IS ESPECIALLY IMPORTANT TO RETURN THIS PROGRAM TO THE PAST LEVEL. OUR ECONOMIC PROGRAMS, AIMED AT ACCELERATING THE PACE OF OMANI DIVERSIFICATION AWAY FROM OIL-RELATED INDUSTRIES, HAVE BECOME MORE CRITICAL FOR OMAN AS OIL PRICES DECLINE. OMAN DOES NOT HAVE THE ABILITY TO REPLACE OUR ASSISTANCE FROM ITS OWN SOURCES. OMAN REMAINS A MODERATE, PRO-WESTERN FORCE IN THE GULF AND ONE OF THE FEW STATES IN THE REGION THAT HAS BEEN CONSISTENTLY SUPPORTIVE OF EGYPT AND PARTICULARLY REMAINS SO FROM THE TIME EGYPT SIGNED THE CAMP DAVID ACCORDS.

OUR ESF PROGRAMS FOCUS ON CRITICAL REQUIREMENTS FOR DEVELOPMENT: WATER PROJECTS, EDUCATION, TECHNOLOGY, AND ECONOMIC DIVERSIFICATION. THESE ACTIVITIES ARE PROGRAMMED BY A.I.D. AND THE OMANI-AMERICAN JOINT COMMISSION BASED IN MUSCAT. THE UNITED KINGDOM IS OMAN'S MAIN MILITARY SUPPLIER THOUGH OMAN HAS SHOWN INTEREST IN USING FMS FINANCING IN FISCAL YEAR 1987 TO PURCHASE C-130 AIRCRAFT, AIR DEFENSE ITEMS, AND ANTI-TANK WEAPONRY. OMANI DEFENSE MUST GUARD AGAINST THREATS FROM IRAN AS WELL AS SOUTH YEMEN -- THE LATTER POSSIBILITY

UNDERSCORED BY THE RECENT COUP WHICH BROUGHT HARD LINE IDEALOGUES TO POWER. CONTINUED MODERNIZATION OF OMAN'S DEFENSE THUS REMAINS A HIGH PRIORITY. FMS WILL ALSO SUPPORT PREVIOUSLY PURCHASED U.S. EQUIPMENT. THE MODEST IMET PROGRAM WILL PROVIDE ADVANCED TRAINING FOR THE SULTAN'S ARMED FORCES, IMPROVED MILITARY MANAGEMENT, AND BETTER UNDERSTANDING OF OUR SECURITY RELATIONSHIP ON AN OPERATIONAL LEVEL.

NORTH YEMEN (YEMEN ARAB REPUBLIC): NORTH YEMEN OCCUPIES A STRATEGIC AREA BETWEEN THE, MARXIST, PEOPLES DEMOCRATIC REPUBLIC OF YEMEN (PDRY) AND SAUDI ARABIA. NORTH YEMEN HAS BEEN THREATENED BY BOTH DIRECT ATTACKS FROM AND INSURGENCY SUPPORTED BY SOUTH YEMEN IN THE PAST. THE RECENT COUP IN SOUTH YEMEN RAISES ANEW THE SPECTER OF SUCH THREATS BECAUSE IT BROUGHT TO POWER PARTICULARLY DOCTRINAIRE COMMUNISTS WHO HAVE FREQUENTLY ADVOCATED INSURGENCY. SUPPORTING A STABLE GOVERNMENT IN NORTH YEMEN, WHICH CAN RESIST OUTSIDE THREATS AND MEET THE NEEDS OF ITS PEOPLE FOR ECONOMIC DEVELOPMENT, IS IN OUR INTEREST AND DIRECTLY SUPPORTS REGIONAL STABILITY AND PEACE IN THIS CORNER OF THE ARABIAN PENINSULA. YEMEN REMAINS A DESPERATELY POOR COUNTRY. ITS PER CAPITA GNP IS ONLY ABOUT $550. LIFE EXPECTANCY IS ABOUT 45 YEARS; ADULT LITERACY IS 9 PERCENT; THE INFANT MORTALITY RATE IS 173 PER 1000; AND ONLY 14 PERCENT OF YEMEN'S SIX MILLION PEOPLE HAVE ACCESS TO SAFE WATER. A DROUGHT IN RECENT YEARS HAS SEVERELY REDUCED GRAIN

PRODUCTION AND INCREASED THE NEED FOR AGRICULTURAL IMPORTS. DECLINES IN WORKER REMITTANCES AND ARAB AID, BOTH RELATED TO THE DECLINE IN THE WORLD MARKET, HAVE PLACED SERIOUS, FURTHER STRAINS ON THE YEMENI ECONOMY. ALTHOUGH AN AMERICAN COMPANY DISCOVERED OIL IN COMMERCIAL QUANTITIES IN YEMEN, THE COUNTRY WILL RECEIVE NO OIL INCOME UNTIL AT LEAST LATE 1988.

FOR NORTH YEMEN, OUR FISCAL YEAR 1987 REQUEST CONSISTS OF $26 MILLION IN DEVELOPMENT ASSISTANCE, $5 MILLION IN PL 480, $3 MILLION IN CONCESSIONAL RATE FMS, $5 MILLION IN MAP, AND $1.55 MILLION IN IMET.

ECONOMIC ASSISTANCE PROGRAMS ARE IN AGRICULTURE, EDUCATION, AND HEALTH. SOME FUNDS CONTINUE TO BE USED FOR EARTHQUAKE RECONSTRUCTION IN THE AFTERMATH OF THE 1982 DISASTER THAT LEFT UP TO 400,000 YEMENIS HOMELESS. YEMEN WILL USE MAP FUNDS TO MAINTAIN U.S. - ORIGIN EQUIPMENT AND TO SUPPORT TRAINING FOR ITS ARMED FORCES. BECAUSE WORLDWIDE MAP FUNDS ARE NOT SUFFICIENT TO MEET ALL SUPPORT AND TRAINING NEEDS FOR U.S.-ORIGIN EQUIPMENT, WE ARE ALSO OFFERING CONCESSIONAL FMS TO YEMEN FOR THE FIRST TIME IN FISCAL YEAR 1987. WE BELEIVE TREASURY RATE FMS WOULD PLACE AN UNACCEPTABLE DEBT BURDEN ON THE YAR. THE IMET PROGRAM FINANCES TRAINING IN THE U.S. AND AN EFFECTIVE ENGLISH LANGUAGE PROGRAM IN YEMEN. OVERALL, OUR SECURITY ASSISTANCE PROGRAM FOSTERS CLOSER COOPERATION BETWEEN

OUR TWO MILITARY ESTABLISHMENTS, CREATES THE SKILLS NEEDED FOR OPERATION AND MAINTENANCE OF U.S. EQUIPMENT AND MAINTIANS AN ALTERNATIVE TO TOTAL DEPENDENCE ON SOVIET MILITARY EQUIPMENT.

MOROCCO: U.S. RELATIONS WITH MOROCCO ARE BASED ON A LONG RECORD OF COOPERATION AND MUTUAL RESPECT. WE VALUE OUR STRATEGIC RELATIONSHIP WITH MOROCCO, WHICH REMAINS CRITICAL AND HAS NOT BEEN DIMINISHED BY THE TREATY OF UNION BETWEEN MOROCCO AND LIBYA. DESPITE OUR OPPOSITION TO THIS UNION, THE ECONOMIC, POLITICAL, AND MILITARY RATIONALES FOR U.S. ASSISTANCE PROGRAMS HAVE NOT CHANGED. COOPERATION BETWEEN THE UNITED STATES AND MOROCCO CONTINUES TO BE OF MUTUAL BENEFIT. IN FACT, U.S. FORCES HELD MORE JOINT MANEUVERS WITH MOROCCO IN 1985 THAN WITH ANY OTHER NON-ALLIED STATE. THESE MILITARY COOPERATION ARRANGEMENTS ARE OF KEY IMPORTANCE FOR U.S. FORCES IN EUROPE AND THE MEDITERRANEAN AND PROVIDE LOGISTICAL SUPPORT FOR CENTRAL COMMAND CONTINGENCIES, INCLUDING ACCESS TO THE PERSIAN GULF AND AFRICA. OUR TOTAL FISCAL YEAR 1987 REQUEST FOR MOROCCO IS $154 MILLION. IF DUPLICATE FACILITIES WERE AVAILABLE ELSEWHERE AND WITH SIMILAR STRATEGIC IMPORTANCE, THE COST WOULD BE FAR IN EXCESS OF OUR ASSISTANCE PROGRAM.

OUR REQUEST FOR MILITARY ASSISTANCE CONSISTS OF $10 MILLION IN CONCESSIONAL FMS, $60 MILLION IN MAP, AND $1.85 MILLION IN IMET. THIS FUNDING LEVEL WILL NOT ALLOW FOR ANY NEW SYSTEMS AND IS LESS THAN THAT REQUIRED FOR SUPPORT OF U.S. - ORIGIN EQUIPMENT ALREADY PURCHASED.

MOROCCO FACES PARTICULARLY SEVERE ECONOMIC PROBLEMS BECAUSE OF DECLINES IN THE WORLD PRICE OF PHOSPHATE, ITS MAJOR EXPORT AND REDUCTIONS IN WORKER REMITTANCES. THOUGH IT IS DEPENDENT ON IMPORTED ENERGY, LOWER OIL PRICES WILL PROBABLY HAVE A NET NEGATIVE EFFECT FOR THAT COUNTRY AS REMITTANCES AND ARAB AID ARE LIKELY TO DECLINE WITH THE PRICE OF OIL. CHRONIC UNEMPLOYMENT AND UNDEREMPLOYMENT, ALONG WITH RAPID POPULATION GROWTH FURTHER BURDEN THE ECONOMY.

OUR ASSISTANCE TO MOROCCO IS COORDINATED WITH A MAJOR IBRD/IMF RESTRUCTURING PROGRAM TO INCREASE FREE MARKET INCENTIVES IN THE ECONOMY. OUR FISCAL YEAR 1987 REQUEST FOR ECONOMIC ASSISTANCE INCLUDES $18 MILLION IN DEVELOPMENT ASSISTANCE, $44.2 MILLION IN PL 480 FOOD AID, AND $20 MILLION IN ESF. DEVELOPMENT ASSISTANCE WILL FUND ONGOING PROJECTS IN AGRICULTURE, POPULATION, ENERGY, AND TECHNICAL TRAINING -- ALL OF CRITICAL IMPORTANCE TO MOROCCO AS IT UNDERTAKES ECONOMIC ADJUSTMENTS UNDER IMF

GUIDANCE. IN RESPONSE TO MOROCCO'S BALANCE OF PAYMENTS PROBLEMS, ESF WILL FINANCE PRIVATE SECTOR DEVELOPMENT AND EXPORT PROMOTION PROGRAMS TO BOOST CRITICAL FOREIGN EXCHANGE RESERVES THAT NOW ALLOW FOR LESS THAN ONE MONTH OF IMPORTS.

ALGERIA: ALGERIA IS A RECOGNIZED LEADER IN ARAB AND THIRD WORLD AFFAIRS. ALGERIA'S MILITARY CAPACITY TO COUNTERBALANCE LIBYA WORKS IN OUR INTEREST. WE HAVE AN IMPORTANT COMMERCIAL RELATIONSHIP WITH ALGERIA WHERE U.S. FIRMS HAVE BUILT MODERN GAS LIQUIFICATION FACILITIES TO EXPLOIT THE WORLD'S FOURTH LARGEST NATURAL GAS RESERVES.

OUR ONLY ASSISTANCE TO ALGERIA IS IMET, FOR WHICH WE ARE REQUESTING $150 THOUSAND IN FISCAL YEAR 1987. THIS PROGRAM PROMOTES CONTACT BETWEEN U.S. AND ALGERIAN MILITARY OFFICERS AND CLARIFIES OUR LEGITIMATE INTERESTS IN NORTH AFRICA TO KEY MEMBERS OF THE ALGERIAN MILITARY. THROUGH IMET, WE CAN MORE READILY IDENTIFY COMMON GOALS IN THE REGION. AS AN OUTGROWTH OF ITS STRUGGLE FOR INDEPENDENCE, THE MILITARY REMAINS AN IMPORTANT INSTITUTION OF THE ALGERIAN REPUBLIC.

TUNISIA: TUNISIA REMAINS A LONG-TIME FRIEND AND AN ARAB MODERATE THAT LOOKS TO THE UNITED STATES BOTH FOR

SECURITY ASSISTANCE IN MEETING LIBYAN THREATS TO ITS SECURITY AND FOR CONTINUED SUPPORT FOR TUNISIAN ECONOMIC DEVELOPMENT. SINCE THE 1980 LIBYAN-BACKED INSURRECTION AT THE GAFSA MILITARY GARRISON IN TUNISIA, WE HAVE ENGAGED IN A PROGRAM TO HELP MODERNIZE THE TUNISIAN MILITARY CAPABILITIES TO PROVIDE LIMITED DETERRENT TO POTENTIAL LIBYAN AGGRESSION. LIBYAN THREATS IN SEPTEMBER 1985 AND MOST RECENTLY MARCH 1986 TO USE MILITARY FORCE AGAINST TUNISIA INDICATE THAT TUNISIA'S SECURITY NEEDS HAVE NOT DIMINISHED.

TUNISIA HAS REQUESTED NEW AND REPLACEMENT MILITARY EQUIPMENT IN THE FACE OF LIBYAN THREATS. OUR FISCAL YEAR 1987 REQUEST INCLUDES $27 MILLION IN CONCESSIONAL RATE FMS, $40 MILLION IN MAP, AND $1.8 MILLION IN IMET. FMS AND MAP WILL FUND EQUIPMENT PURCHASES AS WELL AS MAINTENANCE AND SUPPORT FOR EXISTING INVENTORIES IN AIR DEFENSE AND OTHER CONTINGENCIES. THE IMET PROGRAM PROVIDES TRAINING IN THE USE OF U.S. EQUIPMENT.

THE EXPULSION OF OVER 30,000 TUNISIAN WORKERS FROM LIBYA LAST YEAR, DROUGHT, LOWER PRICES FOR TUNISIAN PETROLEUM, AND LOWER DEMAND FOR PHOSPHATES AND OTHER TUNISIAN EXPORTS CREATE ECONOMIC IMBALANCES FELT BY ALL TUNISIANS. PERSISTENTLY HIGH UNEMPLOYMENT RATES SHOW NO INDICATION OF DECLINE IN THE NEXT SEVERAL YEARS.

ON THE ECONOMIC SIDE, WE ARE REQUESTING $20 MILLION IN ESF AND $5 MILLION IN PL480. THIS ASSISTANCE WILL FUND PROGRAMS FOR PRIVATE SECTOR DEVELOPMENT, AGRICULTURE AND POPULATION. WE ARE MAKING SPECIAL ATTEMPTS TO FOSTER HIGHER PRODUCTIVITY IN AGRICULTURE THROUGH TECHNOLOGY TRANSFER AS TUNISIA THIS YEAR MAY BE FORCED TO IMPORT UP TO $100 MILLION OF ADDITIONAL FOOD BECAUSE OF CROP LOSSES DUE TO SEVERE DROUGHT. OUR PL480 PROGRAM WILL ALLEVIATE THIS DIFFICULT SITUATION BY PROVIDING FOOD WITH MINIMAL ADVERSE EFFECT ON TUNISIA'S BALANCE OF PAYMENTS.

STATEMENT
OF
CHARLES W. GREENLEAF, JR.

ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND NEAR EAST
AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES
APRIL 16, 1986

Mr. Chairman and members of the Subcommittee:

Thank you for the opportunity to present the Asia and Near East Bureau's budget request for FY 1987 for the Near East region, including North Africa and Europe.

Our primary foreign policy objectives in the Near East include strengthening regional political stability and the continued development of nations involved in the ongoing Middle East peace process. The programs requested will support the key actors in that process. They will also provide training and financial and technical assistance to poor people and countries to enable them to increase their incomes and improve their quality of life. Programs are carried out in the agriculture, health, energy, education, and other development programs.

The budget request for FY 1987 for the Near East, Africa and Europe has been constructed and is submitted in full recognition of domestic financial constraints. The eight bilateral and two regional programs requested a total of 2.12 billion in ESF (95 per cent for Israel and Egypt; $44 million in DA; $235 million in Title I (79 per cent for Egypt); and $10.9 million in Title II.

NEAR EAST AND NORTH AFRICA

Israel

A cash transfer of $1.2 billion is requested for direct support of Israel's civilian economy, thereby facilitating maintenance of a modest rate of economic growth and management of Israel's balance of payments problem. In conjunction with economic policy dialogue, our assistance provides support for Israel's stabilization and growth. A U.S.-Israeli Joint Economic Development Group was formed in 1984, and continues to function actively as a forum for policy discussions.

Israeli economic performance declined in the mid-1970's following two decades of rapid growth. Since then, the rate of growth has averaged less than 3 per cent per year. For 1985, GDP grew by less than 2 per cent. Moreover, the country continued to suffer from triple digit inflation and balance of payments difficulties. However, price increase trends were sharply downward during the last half of 1985 in response to a new, more comprehensive program introduced by the government in July. Current government programs seek to reduce budgetary deficits by slowing down public sector consumption and reducing subsidies and transfer payments. At the same time, the government is attempting to ensure economic growth.

In recent years, there have been some reductions in the current account deficit, which declined from a peak of 9 per cent of GDP in 1983 to an estimated 6.5 percent in 1984. For 1985 the current account may have been in surplus, thanks in part to increased U.S. grant assistance. Improved performance is due in part to maintenance of more realistic exchange rates which improve the competitiveness of Israel's exports. Past current account deficits have been financed through overseas borrowing. As a consequence, the country's gross debt service obligations have been high: 25 per cent-30 per cent of exports plus transfer payments since 1981.

The government has embarked on an economic program to restore stability in its balance of payments, improve domestic economic performance, and reduce inflation. It is still too early to assess the outcome of these programs, but initial indications are favorable, particularly with respect to prices. Continued government cutbacks in budget expenditures, maintenance of a realistic exchange rate, and wage restraint are essential. Reforms in the areas of tax, monetary, and investment policy and improvements in the labor and capital markets would be useful in facilitating a return to stability in Israel's external accounts and resumption of vigorous, non-inflationary economic expansion. These subjects are, and will continue to be, discussed by the Joint Economic Development Group.

Egypt

This program consists of $815 million in ESF, $185 million in PL 480 Title I, and $4.9 million Title II. With these resources, A.I.D. continues to: (1) encourage, support, and then respond with assistance to specific Government of Egypt economic policy reforms; (2) support balance of payments through cash transfer and commodity imports with an increasing share of the commodity import program channeled to the private sector to improve productivity in agriculture and industry; (3) promote a favorable climate for private investment, both domestic and foreign, by channeling resources increasingly through Egypt's private sector, and encouraging reliance on free-market pricing; and (4) support the development of human resources through programs in health, nutrition, population, education and training.

Economic growth has declined substantially from the high levels of the previous decade. Real GDP rose an estimated 4 per cent in the past two years, 1984 and 1985--half of its 9-10 per cent levels in the mid 1970s. The impressive growth rate of the earlier decade was attributable to growth in oil production, oil exports, higher petroleum prices and remittances from Egyptian workers abroad. The soft world oil market and a continuing high level of government deficits have created severe balance of payments problems with a rising debt service ratio. Payments on Egypt's civilian debt amount to 27 per cent of foreign exchange receipts. Including payments on the FMS debt, the ratio increases to 32 per cent.

The government is aware of the consequences of its balance of payments deficits and has taken corrective measures, but has yet to implement a comprehensive program to channel additional resources from consumption to the export sector. Domestic prices for energy are still far below world levels, encouraging domestic consumption of potential exports. The remedial measures taken so far are only a start and, by themselves, are unlikely to significantly redress structural imbalances. These imbalances inhibit the economy from fully exploiting its development potential.

Morocco

The Morocco request is for $18 million DA, $40 million Title I, $4.2 million Title II, and $20 million ESF. The program focuses on five paramount and integrated objectives: macroeconomic policy reform, increasing economic growth, increasing food supply, reducing population growth and improving primary health care, and improving management of energy and natural resources.

Concessional assistance helps address the overriding concern confronting the Moroccan economy, its heavy debt-servicing requirements and its need for structural reform. Severe balance of payments difficulties have necessitated debt rescheduling. Debt relief totaled $1.1 billion in 1985, and is expected to amount to $1.7 billion in 1986 and $1.2 billion in 1987. In the absence of debt relief, the debt service ratio would have been 63 per cent in 1985. Also, gross external debt exceeds 100 per cent of GDP and foreign exchange reserves have all but evaporated. Fiscal and monetary restraints have taken their toll on growth, which dropped below 3 per cent in both 1983 and 1984. Given rapid population growth, real income per capita has declined since 1981. Real growth was expected to be a little more than 4 per cent in 1985, thanks to a good cereals harvest, increased tourism, and rising manufacturing exports. Resumption of rapid growth, however, must await an easing of the country's acute debt servicing problems.

A $210 million IMF Stand-by Arrangement was negotiated in 1985. The Arrangement is supporting the country's comprehensive structural adjustment program. The primary thrust of the program is transition from an inward-looking economy in which the state was the engine of growth to an outward-oriented economy relying on private initiative and market forces.

A.I.D. is modifying its assistance portfolio to concentrate resources in ways which support policy reform and Moroccan efforts aimed at stimulating the private sector and export promotion.

To increase the country's capability to feed itself and to reduce the current deficit in food grains, A.I.D. will combine Development Assistance, P.L. 480 and ESF resources in a concerted effort to bring about increased domestic production of cereals through technology transfer, training, credit, institutional development and policy change.

Rapid population growth exacerbates the chronic food deficit and makes the achievement of all development objectives problematic. With strong A.I.D. support, the Moroccan population strategy focuses on reducing the birth rate and infant and child mortality by the extension of family planning and primary health care services. Key project interventions strengthen the managerial capacity of the Ministry of Public Health to furnish family planning and primary health services on a nationwide scale.

As more that 45 per cent of Morocco's foreign exchange earnings are spent on energy imports, A.I.D's strategy seeks to alleviate the heavy dependence on imported oil by strengthening the Ministry of Energy and Mines and hastening the development of domestic conventional and renewable energy resources.

Yemen Arab Republic

We are requesting $26 million DA and $5 million Title I for North Yemen. Our objectives are: (1) to improve and expand institutional infrastructure in agriculture with emphasis on planning, horticulture, poultry, irrigation, and agricultural education; and (2) to provide participant training to substantial numbers of Yemeni in fields essential to national development.

The real GDP growth rate declined from 9.6 per cent in 1982 to 2.4 per cent in 1984 due to weak performance in all but the construction, trade and private sectors. During 1984, agriculture was particularly hard hit, with growth considerably under 2 per cent due primarily to drought and earthquakes. Yemen's balance of payments deficit widened to $145 million through the first nine months of 1985. The remittance level fell by $121 million to $738 million for the first nine months and the downturn is expected to continue. By September 30, 1985, reserves stood at $298 million, enough to cover 2.4 months of imports. Reserves have been declining slowly. Debt service remains low--approximately 4 per cent of current account receipts.

In FY 1987, we plan to provide funds for ongoing activities including:

-- agricultural development, focusing on training and institution building, increasing poultry and horticultural productivity, and on-farm water use;

-- training;
-- rural water and child survival; and
-- P.L. 480 Title I to meet grain import requirements.

Tunisia

The program requested, $20 million ESF and $5 million Title I, will continue to support agricultural and rural development, scholarships and technical training, development of the private sector, and strengthening of key Tunisian development institutions.

Tunisia achieved significant growth during the first half of the 1980s. However, the next few years do not bode well. Tunisia's recent economic performance was hurt by: (a) Libya's decision to expel some 30,000 Tunisian expatriates and reneging on most pending payments to Tunisia; (b) the dramatic decline in the price of oil; (c) the declining production of oil and phosphates; and (d) the deeply rooted structural imbalances undermining the competitiveness of the economy. Tunisia will encounter considerable difficulty in the year ahead as it simultaneously services its external debt, narrows its current account deficit, reduces its budget deficit, absorbs growth in the labor force, and eliminates the worst public sector inefficiencies.

In FY 1987 we will continue to work with the Government on a range of issues. The Supervised Agricultural Credit project and its successor, Credit II, aim to create a self-sufficient credit institution capable of providing credit to farmers and efficiently managing a loan portfolio. This will help reduce the drain on the budget and provide a forum for policy dialogue on the rationalization of interest rates.

The P.L. 480 Title I program is an integral part of A.I.D.'s agricultural strategy in Tunisia, permitting us to pursue with the GOT policies designed to increase cost-effective agricultural investment in rain-fed areas, and stimulate private sector participation in agriculture related activities, e.g., cost sharing by farmers for infrastructure; price incentives for private fertilizer dealers; increased funding for credit from private sources. A.I.D. will also continue to support a Private Sector Development Project to encourage small and medium scale indigenous entrepreneurs, and to promote greater U.S. investment.

Oman

The ESF request in the amount of $18.8 million for Oman will help develop the non-oil sectors of the economy, particularly fisheries, promote transfer of U.S. technology, encourage the responsible use of limited water resources and a sound approach to wastewater management, and develop human resources through undergraduate and graduate training, especially in the United States.

Oman's economy remains highly dependent on the oil sector, which accounts for nearly half of GDP. The decline in world oil prices will likely cause Oman's modernization effort to be implemented at a more modest pace, but more within its technical and social absorptive capacity. At the present time, economic policy makers are taking a prudent approach; government expenditures were recently reduced by 10 per cent and the currency was devalued. Substantial long-term efforts will be required to achieve the goal of decreased oil dependency, given the lack of trained Omani manpower and arable land and water for agricultural development. A.I.D. provides long-term support to the government's modernization and diversification programs.

Jordan

A portion of the FY 1987 request of $18 million in ESF will be used to continue support for government efforts to identify and exploit Jordan's water resources. Technology transfer and institution building will be stressed along with training for employees of the Jordan Water Authority. Funds will also be used for an ongoing agricultural project and a new Town and Village Enterprise Development project. In education, graduate level training will be provided for promising Jordanians. The Commodity Import Program and one or more projects to be identified will be used to stimulate both private and public sector activity. These will be funded from the last tranche of the $250 million 1985 supplemental appropriation.

Real economic growth in Jordan, which averaged 11.7 per cent annually between 1975 and 1981, slowed down to an estimated rate of less than 5 per cent in 1985. This diminished performance reflects in part the retrenchment policies correctly adopted by the government in response to external factors: significantly reduced grants from Arab League oil producers; a reduction in Jordanian workers' remittances from the Gulf states; and sluggish export performance. The sectors most affected by this economic slowdown have been mining, manufacturing, trade and certain services. Jordan's balance of payments has come under pressure; foreign exchange reserves now cover only six weeks of imports, down from seven months in 1983.

Lebanon

The $2 million requested for Lebanon will be used largely for short-term emergency relief extended through private voluntary agencies, including provision of food, shelter, medical services and supplies, and for some rehabilitation activities.

The unsettled security situation in Lebanon has had a devastating impact on economic and social conditions. Fragmentary data indicate that output is less than one half of pre-1974 levels. Economic activity continues to decline in parallel with deteriorating security conditions. Disruptions in domestic production and marketing channels have led to heavy reliance on imports and clandestine trading activities. The government has suffered severe revenue losses, since much of this trade is conducted outside of government controlled areas, while the government's expenditure levels have increased. Reliance on deficit financing has increased inflationary pressures to a point where inflation is a major problem.

Present reconstruction efforts have been scaled down to match the limited resources available to the government and the restrictions placed upon these efforts by the security situation. While domestic economic conditions are bleak and the outlook somber, plans are in place and potential external support is available to begin reconstruction once the political and security situation stabilizes.

Regionally Funded Programs

Two additional programs in the Middle East area are funded under the ANE Regional account. The Regional Cooperation program, for which $5.8 million ESF is requested, funds activities to strengthen the peace process and increase mutual understanding between Israel and its Arab neighbors, especially Egypt. Reduction in funding for the Regional Cooperation program in FY 1986 ruled out any new program starts. Funding in FY 1987 at the requested level should bring the ongoing projects back to their originally anticipated levels and permit consideration of new cooperative projects in health and agriculture involving Israeli and Egyptian scientists.

For the West Bank and Gaza, $18 million in ESF is requested for projects to improve the living and employment conditions of Palestinians residing in those areas. Funding will be provided to the six U.S. organizations currently working in the West Bank and Gaza for projects in health, water and sanitation, agriculture, vocational and higher education and construction of schools, roads and markets. Funding will also be provided to stimulate private sector economic development. Also requested is $1.8 million in Title II.

EUROPE

Bilateral programs in Turkey, Portugal, Spain, Cyprus, and Northern Ireland/Ireland are also included in this request. They total $245 million in ESF, excluding Ireland, and are predominantly keyed to our security interests.

Turkey

The $150 million ESF request will continue support for Turkey's economic stabilization program. Turkey is expected to continue to pursue policies that encourage development of the private sector.

In comparison to a robust 5.8 per cent in 1984, real growth in Turkey was down in 1985 to roughly 3.6 per cent. The wheat crop was not extraordinary and there was a slowdown in the growth of industrial output. The balance of payments continued to improve in 1985; the current account deficit dropped under $1 billion--1.9 per cent of GNP. The merchandise trade balance declined by $240 million; exports were up 12 per cent and imports rose only 5 per cent. In addition to continued export expansion, tourism was buoyant. On the other hand, some debt-servicing difficulties persist.

Turkish economic prospects hinge critically on structural adjustment in line with a successful IMF stabilization program. The government has been aggressively implementing a major economic structural reform program, providing for an enhanced role for the private sector and the use of market forces as opposed to regulation. Inflation, once at triple digit levels, has been brought down considerably, although it remains high. While much of the reform program remains on track, budget deficits have been monetized, a development that could lead to a reintensification of inflationary pressures.

Portugal

We are requesting $80 million in ESF as a cash transfer to the Government of Portugal.

The rapid growth of the Portugese economy has slowed from its high point at the beginning of the 1980s. GDP has shown no growth in the past two years, and only a modest improvement is expected this year. Unemployment (at 10 per cent of the labor force) and idle industrial capacity remain high. Nevertheless, there are some signs that the government is loosening its tight fiscal and monetary policy.

In the past, expansionary economic policies have led to severe balance of payments deficits and excessive external indebtedness. Total external debt is two-thirds of GDP and the debt service ratio was 36 per cent in 1984. Under the government's stabilization efforts, inflation dropped 20 per cent in 1985. High government deficits and inefficiently managed publicly owned industries are the main causes of persistent inflation. With the entry of Portugal into the Common Market, a more comprehensive reform program is needed to achieve increased productivity in the agricultural and industrial sectors, thereby permitting Portugese exports to compete in the larger European market.

U.S. economic assistance is provided in the context of an agreement which permits U.S. use of bases in the Azores and space tracking facilities in mainland Portugal. The U.S. promised its best efforts to providing such assistance throughout the life of the agreement which runs through 1991. The Government of Portugal has used this economic assistance for (1) developmental needs in the Azores--one of the poorest regions of Portugal; and (2) as an endowment for the Luso-American Development Foundation (LADF), a private Portuguese foundation intended to build upon the developmental programs initiated by A.I.D.. The LADF formally came into existence in late 1985 and is just beginning to make grants. Its primary interest is private sector activities.

We expect that the Government of Portugal will continue to use future economic assistance in these ways.

Spain

ESF in the amount of $12 million is requested for Spain, to fund scientific, technical, educational, and cultural exchange programs carried out through the Department of State and U.S.I.A.

Cyprus

The $3 million ESF requested for Cyprus will continue support for programs fostering intercommunal cooperation.

The economy in the Greek Cypriot south, with 80 percent of the island's population, is performing well. It has high growth, practically full employment, low inflaction and per capita income approaching $4,000. Economic development ha been slower in the Turkish Cypriot north. GNP per capita is estimated at under $2,000 a year. Unemployment is higher and living standards lower than those in the south.

Northern Ireland and Ireland

An FY 1986 ESF supplemental appropriation of $20 million and $20 million of ESF funds for FY 1987 are being requested as U.S. contributions to the proposed International Fund in support of the Anglo-Irish Agreement on Northern Ireland. In addition to these two $20 million contributions, we intend to make available to assist the development objectives of the fund at least $30 million in each year from existing U.S. Government investment, trade promotion, and guarantee mechanisms. In FY 1986, these will include up to $20 million in Housing Guarantees and as yet unspecified amounts from OPIC, the Export-Import Bank's normal guarantee and insurance programs, the Trade and Development Program, and A.I.D.'s Private Sector Revolving Loan Fund. These amounts are part of an envisioned $250 million total U.S. assistance program contributing to the Fund and to parallel development activities over the next five years.

Since the new Fund has not yet been established, and we are involved in discussions on its operations with the British and Irish Governments, we cannot be specific at this time on projects to be carried out. We will of course be reporting periodically to the Congress on Fund objectives and activities.

ANE BUREAU MANAGEMENT INITIATIVES

Reorganization

In May 1985, A.I.D.'s Bureau for Asia and Bureau for the Near East merged into a single unit, the Asia and Near East Bureau (ANE). The initial job of combining two organizations with different operating systems, program emphases, strengths, problems, and staff has been substantially accomplished.

The reorganization with accompanying staff reductions has increased the need for efficiency measures, such as expanded use of automation, centralization of similar functions, integrated technical support, and added delegations to the field, in order to make the best use of the available workforce.

Evaluation and Financial Management

The merger of the former Asia and Near East Bureaus presented a unique opportunity to bring together the best evaluation features of both bureaus. Central to each bureau was the use of evaluation to support management decision-making. This will continue as a major focus in the ANE Bureau.

With regard to financial management concerns, all Asia and Near East Bureau missions are currently in the process of submitting annual updates to a document describing "Mission Financing Policy and Procedures" to the Washington headquarters. These documents are part of a continuing review process which will ensure that all new project proposals submitted for approval include realistic implementation and financing plans.

The Bureau has conducted "vulnerability assessments" of field missions and also has improved audit liaison procedures. This effort has resulted in a reduction of open audit recommendations during the past year.

CONCLUSION

The Near East, North Africa and Europe represent one of the world's most strategically important regions. A.I.D. recognizes this, and is responding to the political realities of the area. A.I.D. also recognizes the large development challenges there. We will continue to address these challenges.

I appreciate the opportunity to discuss our program in the Near East, North Africa and Europe. I look forward to answering your questions.

Mr. **Obey**. Anyone else? General?

General **Gast**. I don't have a specific response.

I do have a short justification I would like to submit and a longer one I would submit for the record.

Mr. **Obey**. By all means.

MILITARY ASSISTANCE TO THE MIDDLE EAST AND NORTH AFRICA

General **Gast**. Secretary Murphy said we need to consider not only the Middle East but North African countries as well.

Chart 1.

[Chart follows:]

U.S. OBJECTIVES

- SECURITY OF ISRAEL AND OTHER FRIENDLY NATIONS
- FREE FLOW OF TRADE/OIL
- STABILITY/PEACE
- BLOCK SOVIET EXPANSION

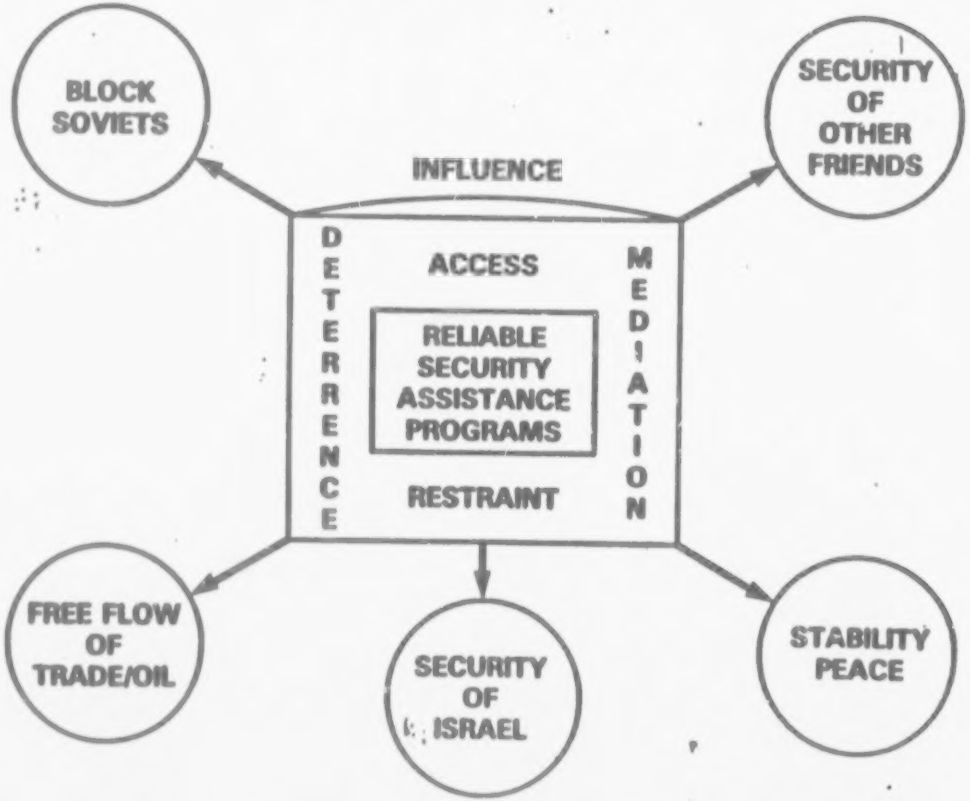
General GAST. I believe most people understand that when we make a decision whether to provide military assistance or military aid, we need to take into account our objectives within the region which are the security of Israel and friendly relationships and assistance to friendly Arab countries, as well as maintaining a dialogue with radical Arab states, to assure the free flow of trade, stability and peace and to block a Soviet expansion.

These objectives have remained amazingly constant over the last four decades and we believe they are mutually complementary as well.

Chart 2.

[Chart follows:]

SECURITY ASSISTANCE: AN IMPORTANT ELEMENT OF FOREIGN POLICY


BLOCK SOVIETS
INFLUENCE
SECURITY OF OTHER FRIENDS
DETERRENCE
ACCESS
RELIABLE SECURITY ASSISTANCE PROGRAMS
RESTRAINT
MEDIATION
FREE FLOW OF TRADE/OIL
SECURITY OF ISRAEL
STABILITY PEACE

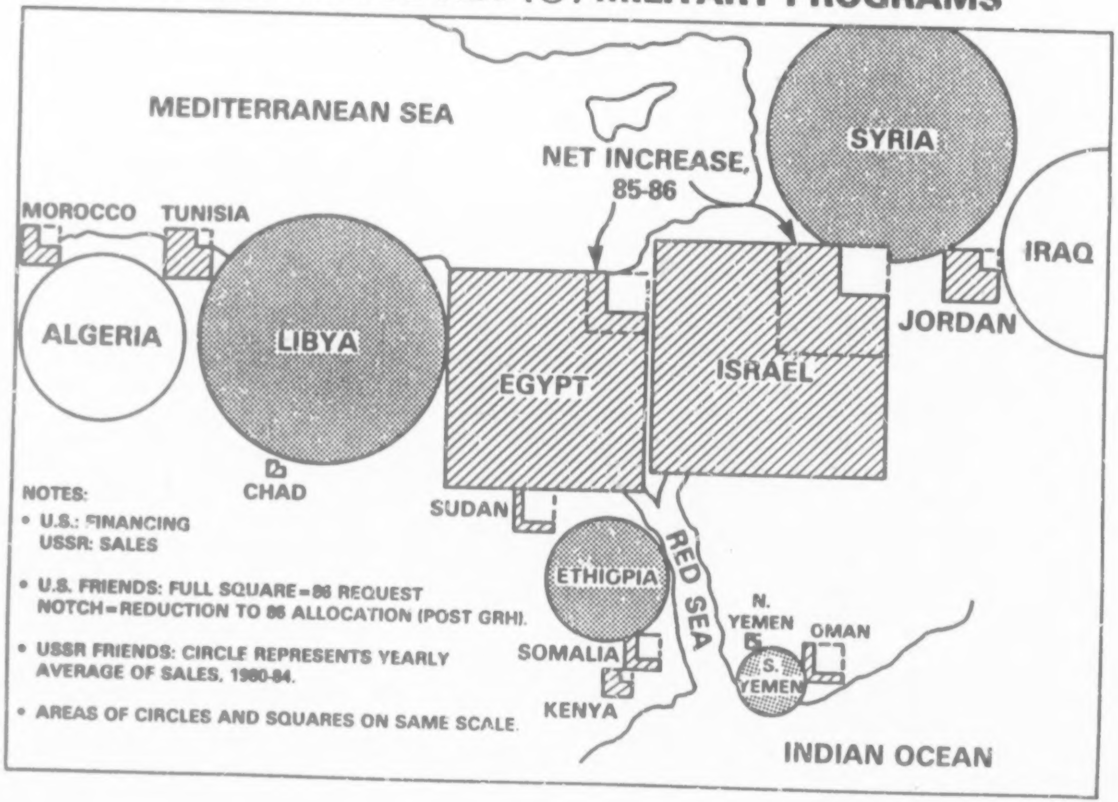
General **Gast**. This chart attempts to portray the dynamics of our security assistance program. At the core is to provide for the defense requirements of a country, hopefully with U.S. aid, in a way that leads us to these instrumentalities: access not only to the military leadership but also the political leadership and the people themselves; reliable assistance so that we can serve, as has been discussed here, as a mediator when it is necessary to work with the countries to exercise restraint, that is, provide deterrence. We seek to build overall influence so as to meet our objectives and work with the country within that context.

Building influence, we believe, not only has to do with the military equipment that we need to provide but also the financing when there are no other sources so as to not drive our friends and allies to some other alternatives.

Chart 3.

[Chart follows:]

THE MIDDLE EAST:
U.S. (□) AND SOVIET (○) MILITARY PROGRAMS


MEDITERRANEAN SEA
NET INCREASE, 85-86
SYRIA
IRAQ
MOROCCO
TUNISIA
ALGERIA
LIBYA
EGYPT
ISRAEL
JORDAN
CHAD
SUDAN
ETHIOPIA
RED SEA
N. YEMEN
OMAN
S. YEMEN
SOMALIA
KENYA
INDIAN OCEAN

NOTES:

- U.S.: FINANCING
  USSR: SALES
- U.S. FRIENDS: FULL SQUARE = 86 REQUEST
  NOTCH = REDUCTION TO 86 ALLOCATION (POST GRH).
- USSR FRIENDS: CIRCLE REPRESENTS YEARLY AVERAGE OF SALES, 1980-84.
- AREAS OF CIRCLES AND SQUARES ON SAME SCALE.

General Gast. This chart, Mr. Chairman, is scaled to financing. The cross hatched squares represent U.S. military assistance in the Middle East; for example $1.8 billion for Israel, $1.3 billion for Egypt, and some $60 or $70 million for Morocco to give you a feel for the amounts.

This hatched area in the Israeli block shows how the Israeli program grew from 1985 to 1986. It was 1.4 billion in 1985. It is 1.8 billion in 1986, before Gramm-Rudman.

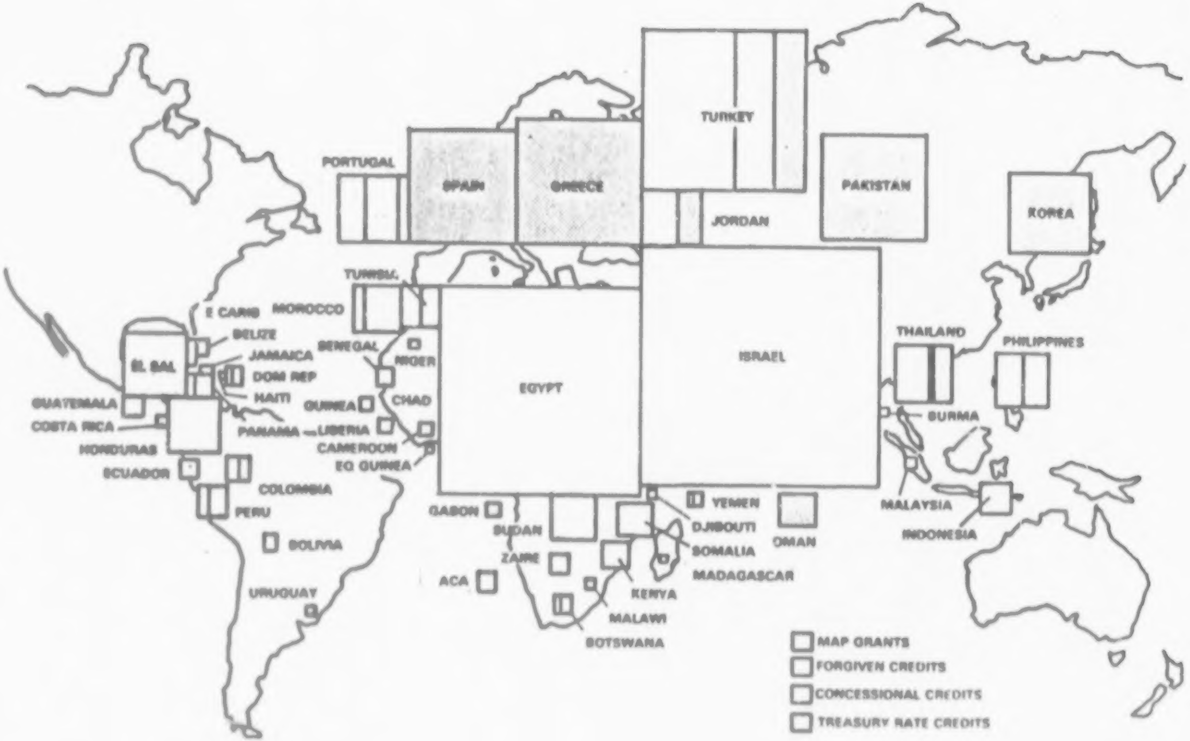
There was a similar increase for Egypt, from $1.13 billion to $1.3 billion. The notched areas reflect the cuts that were necessary either as a result of the 4.3 percent Gramm-Rudman cut or by the fact that we were some $500 million short of overall levels and had to reduce Oman by about 60 percent, North Yemen about 50 percent, some 25 percent in Morocco. Tunisia was reduced by 4.3 percent, but others were cut more severely.

The dotted circles are scaled the same way. They represent a yearly average from 1980 to 1984 of Soviet military sales, to Syria, Libya, Ethiopia, South Yemen.

The circles are uncomfortably close to the countries which share our ideals and our objectives and where we have had to take cuts. We believe we need to restore them to gain those objectives that I spoke of earlier in, of course, a crucial part of the world.

[Chart follows:]

FY 1987 FMS/MAP FINANCING REQUEST
(SCALED TO FINANCING)


PORTUGAL
SPAIN
GREECE
TURKEY
JORDAN
PAKISTAN
KOREA
TUNISIA
E CARIB
MOROCCO
BELIZE
JAMAICA
SENEGAL
NIGER
EL SAL
DOM REP
HAITI
GUINEA
CHAD
GUATEMALA
COSTA RICA
PANAMA
LIBERIA
CAMEROON
HONDURAS
EQ GUINEA
ECUADOR
COLOMBIA
PERU
BOLIVIA
URUGUAY
EGYPT
ISRAEL
THAILAND
PHILIPPINES
BURMA
GABON
SUDAN
ZAIRE
ACA
YEMEN
DJIBOUTI
SOMALIA
MADAGASCAR
KENYA
MALAWI
BOTSWANA
OMAN
MALAYSIA
INDONESIA
MAP GRANTS
FORGIVEN CREDITS
CONCESSIONAL CREDITS
TREASURY RATE CREDITS

General GAST. Chart 4. When we begin to further look then at this year's program, you can see that the yellow is forgiven loans for Egypt and Israel, at $1.8 and $1.3 billion respectively. The red is concessional loans. The blue is Treasury rate loans. For example, here we see Oman would receive Treasury rate loans of some $40 million which essentially would buy further support of U.S. equipment already provided.

In Israel, the financing is to continue to pay for aircraft on order and some of it is for the development of Lavi, of course. For Egypt we are very, very concerned there whether we can continue to support the programs at this level because of the rapidly growing obsolesence and the fact that the Egyptians are having to close down units because their Soviet equipment is no longer useful.

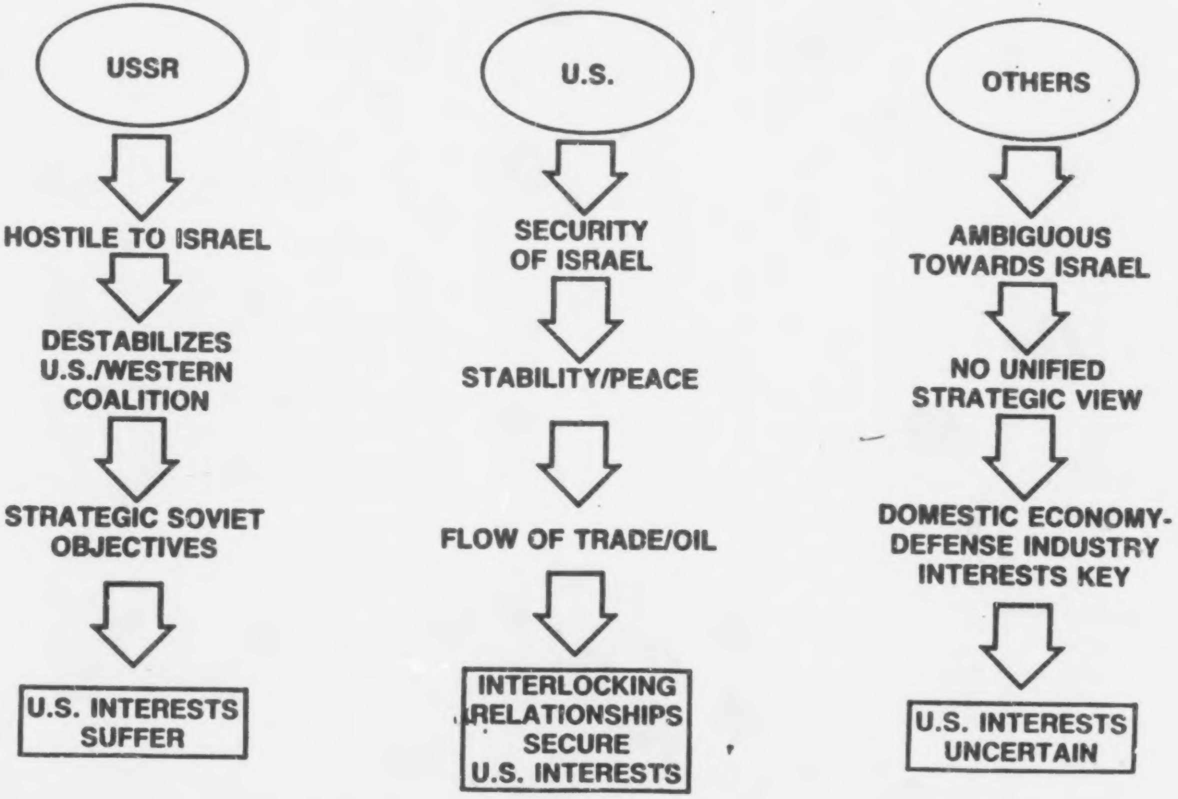
We believe it is important we continue to modernize Egyptian equipment and, hopefully, we can do some more in the future.

For Tunisia on the border, next to Qadhafi, financing is intended to maintain equipment there plus buy some more artillery and help with command and control. For Morocco, financing is essentially for the same thing, a sustainment of their effort in the Sahara. Finally for Jordan, we propose to provide both concessionary and Treasury rate loans to allow them to buy ammunition, spare parts to maintain the equipment they have and hopefully make some improvements to the F-5E so it can remain a deterrent piece of equipment.

The choice we have before us, assuming the countries have determined that they have legitimate defense requirements, and usually we share their assessment as a result of our joint planning process which identifies what those defense requirements may be, is whether they will be able to receive U.S. support, which we believe has a bearing on the security of Israel.

[Chart follows:]

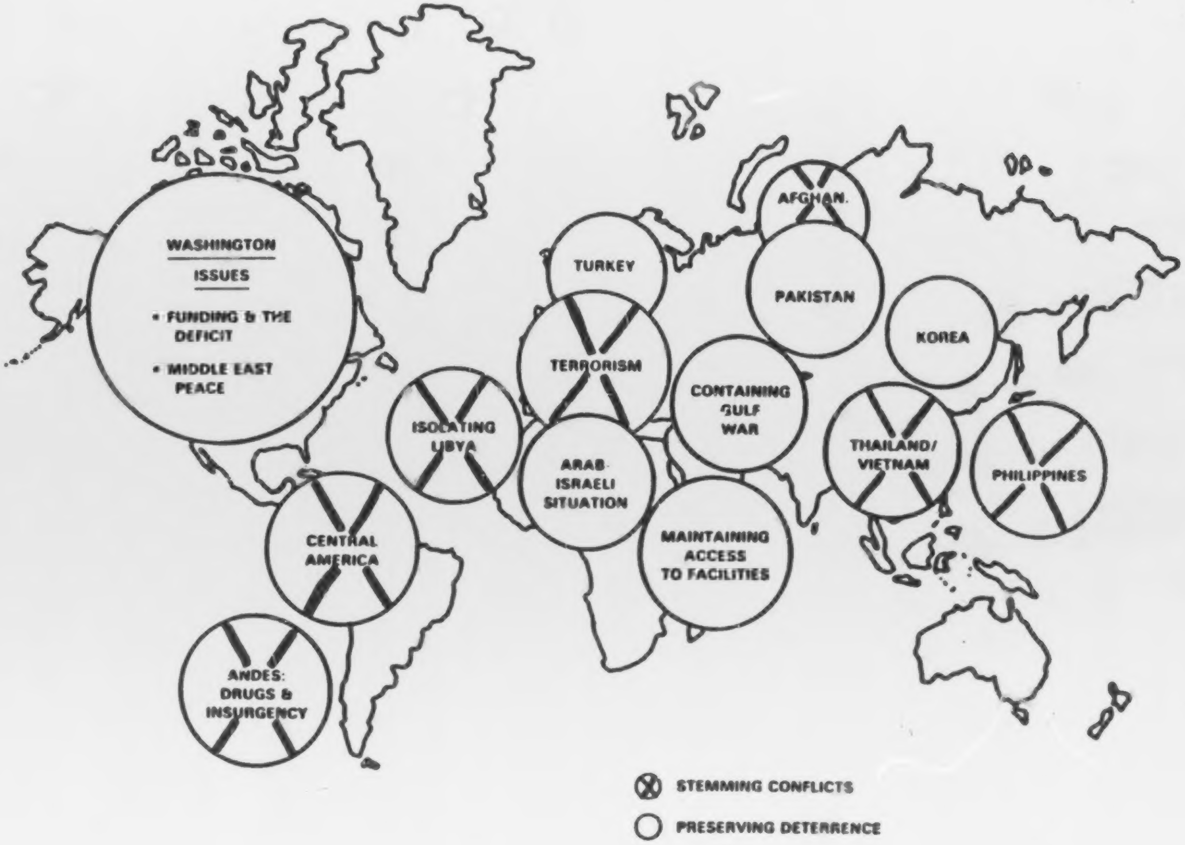
SECURITY ASSISTANCE INVOLVEMENT ALTERNATIVES


USSR
HOSTILE TO ISRAEL
DESTABILIZES U.S./WESTERN COALITION
STRATEGIC SOVIET OBJECTIVES
U.S. INTERESTS SUFFER
U.S.
SECURITY OF ISRAEL
STABILITY/PEACE
FLOW OF TRADE/OIL
INTERLOCKING RELATIONSHIPS SECURE U.S. INTERESTS
OTHERS
AMBIGUOUS TOWARDS ISRAEL
NO UNIFIED STRATEGIC VIEW
DOMESTIC ECONOMY-DEFENSE INDUSTRY INTERESTS KEY
U.S. INTERESTS UNCERTAIN

General GAST. Chart 5. Israel has, in our intelligence estimate, as you know, the ability to stand up to an array of Arab threats and to stabilize the peace. Another U.S. objective in the region includes the flow of oil. All of these objectives or interlocking relationships secure U.S. interests. If we leave it to others like the Europeans or other western countries who are ambiguous toward Israel and have no unified strategic view, then protection of U.S. interests are less than certain. And certainly if the people and countries have to turn to the Soviet Union or return to them then they will certainly be hostile to Israel and destabilization will occur and U.S. interests will surely suffer.

[Chart follows:]

CHALLENGES AHEAD


WASHINGTON
ISSUES
• FUNDING & THE DEFICIT
• MIDDLE EAST PEACE
TURKEY
AFGHAN.
PAKISTAN
KOREA
TERRORISM
CONTAINING GULF WAR
ISOLATING LIBYA
ARAB-ISRAELI SITUATION
THAILAND/ VIETNAM
PHILIPPINES
MAINTAINING ACCESS TO FACILITIES
CENTRAL AMERICA
ANDES: DRUGS & INSURGENCY
⊗ STEMMING CONFLICTS
○ PRESERVING DETERRENCE

General **Gast**. Chart 6. You have seen this chart before where we look to the major challenges of the year and the future. Coming all the way from the north area here I draw your attention to three challenges in the Middle East region which primarily has to do with the Gulf war and the peace process within the region.

We believe that if we can maintain our security assistance levels at what we have asked for in this budget we will be able to work toward our objectives within the region. If we are unable to, the countries other than Israel may be forced to go to some of their alternatives.

That completes my formal presentation, sir.

[The written statement of General Gast follows:]

STATEMENT OF

LIEUTENANT GENERAL PHILIP C. GAST, USAF

DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

BEFORE THE

SUBCOMMITTEE ON FOREIGN OPERATIONS

HOUSE APPROPRIATIONS COMMITTEE

16 APRIL 1986

IN SUPPORT OF THE FY1987 SECURITY ASSISTANCE PROGRAM

FOR NEAR EAST AND SOUTH ASIA

EMBARGOED UNTIL TIME OF DELIVERY

HEARING ON NESA REGION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO ADDRESS YOU TODAY ON THE MIDDLE EAST AND SOUTHWEST ASIA REGION. I WILL ALSO INCLUDE A DISCUSSION OF OUR NORTH AFRICAN PROGRAMS, BECAUSE AS YOU KNOW, THE NORTH AFRICAN NATIONS ARE ALSO PART OF THE POLITICAL, ECONOMIC, AND CULTURAL FABRIC OF THE NEAR EAST AND SOUTHWEST ASIA.

THE MIDDLE EAST WITH ITS VAST RESOURCES AND LOCATION AS THE GATEWAY TO THE AIR, LAND, AND SEA ROUTES TO THE PERSIAN GULF, IS OF VITAL ECONOMIC AND STRATEGIC IMPORTANCE TO THE U.S. AND THE FREE WORLD. YET, THE AREA IS FRAUGHT WITH FORCES OF VIOLENCE AND INTIMIDATION, AND THREATS TO REGIONAL AND EVEN WORLD PEACE. UNITED STATES SECURITY ASSISTANCE PROGRAMS ARE DESIGNED TO PROTECT U.S. AND THE FREE WORLD INTERESTS BY PROMOTING ECONOMIC DEVELOPMENT, POLITICAL MODERATION AND REGIONAL STABILITY.

CHART 1: OBJECTIVES

OUR DECISION-MAKING PROCESS ON WHETHER OR NOT TO PROVIDE SECURITY ASSISTANCE TO OUR FRIENDS SHOULD TAKE INTO ACCOUNT OUR OBJECTIVES THERE. UNITED STATES OBJECTIVES IN THE MIDDLE EAST

AND SOUTHWEST ASIA AREAS HAVE REMAINED REMARKABLY CONSTANT OVER THE LAST FOUR DECADES. FROM THE STRATEGIC POINT OF VIEW, U.S. OBJECTIVES IN THIS AREA COINCIDE WITH OUR POLITICAL OBJECTIVES. THESE OBJECTIVES ARE: (1) TO ENHANCE THE SECURITY AND VIABILITY OF ISRAEL AND OTHER FRIENDLY REGIONAL STATES; (2) TO DEVELOP AND MAINTAIN FREE FLOW OF TRADE (ESPECIALLY OIL); (3) TO THWART SOVIET INROADS TO THE REGION; (4) TO MAINTAIN STABILITY -- WHICH INCLUDES OUR EFFORTS TO PREVENT OR CONTAIN WAR. TO OBTAIN THESE, ALL AMERICAN ADMINISTRATIONS HAVE MAINTAINED A WIDE VARIETY OF INTERLOCKING BILATERAL RELATIONSHIPS. THIS APPROACH HAS SEEMED SOUND, ESPECIALLY BECAUSE THE POLITICAL REALITIES OF THE REGION PREVENT COALITION.

THE U.S. GOVERNMENT HAS ALWAYS BELIEVED A STABLE AND SECURE ISRAEL TO BE IMPORTANT TO U.S. INTERESTS IN THE MIDDLE EAST AND EVERY ADMINISTRATION HAS BELIEVED THAT ONE OF THE BEST WAYS TO SUPPORT ISRAEL IS TO ACHIEVE, MAINTAIN AND BUILD ON U.S. INFLUENCE IN THE VARIOUS MODERATE STATES OF THE REGION, WHILE KEEPING CHANNELS OF COMMUNICATION OPEN TO MOST RADICAL STATES. THE U.S. HAS TRADITIONALLY IDENTIFIED A VITAL INTEREST IN ENSURING ACCESS TO OIL FOR THE FREE WORLD AND IN DENYING THE SOVIETS THE GEOSTRATEGIC ADVANTAGE OF DOMINANCE IN THE AREA. THE U.S. HAS ALWAYS CONSIDERED IT SELF-EVIDENT THAT THESE OBJECTIVES ARE COMPLEMENTARY.

CHART 2: SECURITY ASSISTANCE: IMPORTANT ELEMENT OF FOREIGN POLICY

THIS CHART SUMMARIZES WHAT WE BELIEVE TO BE THE TRUE DYNAMICS OF U.S. SECURITY ASSISTANCE PROGRAMS. THE CORE OR OUR EFFORT IS TO PRESENT A RELIABLE ALTERNATIVE TO THE WESTERN-ORIENTED NATIONS OF THIS REGION AS THEY ATTEMPT TO ADDRESS THE MILITARY IMBALANCE THAT MAKES THEM UNACCEPTABLY VULNERABLE. OUR SECURITY ASSISTANCE PROGRAMS LEAD TO THE INSTRUMENTALITIES PORTRAYED IN THE OUTER RECTANGLE, NAMELY: ACCESS TO REGIONAL MILITARY AND NATIONAL LEADERSHIP, MEDIATION BETWEEN REGIONAL RIVALS OR ENEMIES, RESTRAINT AND MODERATION ON THE PART OF OUR FRIENDS, AND DETERRENCE OF THOSE WHO MIGHT OTHERWISE BE TEMPTED TO THREATEN OUR FRIENDS.

HISTORY HAS CONSTANTLY SHOWN SINCE 1948 THAT SECURITY ASSISTANCE, PROPERLY ORCHESTRATED, DOES LEAD TO INFLUENCE THAT SIGNIFICANTLY ENHANCES THE PROSPECTS OF SECURITY FOR THE U.S., ISRAEL AND OTHER FRIENDS IN THE REGION. SECURITY ASSISTANCE HAS MADE AND CAN CONTINUE TO MAKE SIGNIFICANT CONTRIBUTIONS TO U.S. ENCOURAGEMENT OF MODERATION AND RESTRAINT. THUS, SECURITY ASSISTANCE WILL CONTINUE TO BE A MAJOR ELEMENT OF OUR FOREIGN AND DEFENSE POLICY, ENABLING THE U.S. TO FULFILL THE IMPORTANT ROLE OF MEDIATOR IN THE INTEREST OF ISRAEL AND OTHER COUNTRIES IN A REGION OF IMMENSE GEOSTRATEGIC IMPORTANCE. OUR CAPABILITY TO ASSURE THE

SECURITY OF ISRAEL IS SIGNIFICANTLY ENHANCED AS WELL AS OUR ABILITY TO ACHIEVE OTHER IMPORTANT OBJECTIVES, IF THE DYNAMIC PROCESS -- WITH SECURITY ASSISTANCE AT ITS CORE -- CONTINUES TO FUNCTION IN A RELIABLE AND PRUDENT FASHION.

CHART 3: THE MIDDLE EAST: U.S. AND SOVIET PROGRAMS

THE CHART BEFORE YOU NOW SHOWS U.S. FUNDED PROGRAMS, REPRESENTED BY THE BLUE SQUARES, AND SOVIET PROGRAMS, REPRESENTED BY THE CIRCLES. THESE SYMBOLS ARE SCALED TO THE RELATIVE SIZE OF THE PROGRAM. THE RED CIRCLES ARE THOSE PROBLEM COUNTRIES THAT THREATEN OUR FRIENDS AND ALLIES AS WELL AS OUR OWN INTERESTS AND OBJECTIVES IN THE REGION.

AS YOU CAN SEE ONLY EGYPT AND ISRAEL SHOWED A NET INCREASE IN THEIR FUNDED PROGRAMS BETWEEN 1985 AND 1986. THE NOTCH IN THESE COUNTRIES REPRESENTS THE GRAMM-RUDMAN 4.3 PERCENT REDUCTION TO THE FY86 ALLOCATION. ALL OTHER COUNTRIES SHOW A DECLINE IN FY85 AS A RESULT OF CONGRESSIONAL APPROPRIATION FOLLOWED BY THE GRAMM-RUDMAN CUT. SOME OF THESE CUTS WERE QUITE SEVERE. MANY OF THE MAJOR CUTS WERE FOR COUNTRIES THAT ARE NEIGHBORS OF COUNTRIES RECEIVING MAJOR SOVIET SUPPORT, AS THIS CHART CLEARLY SHOWS.

WE WORRY THAT THESE DISPROPORTIONATE CUTS, FORCED BY EARMARKED INCREASES FOR ISRAEL AND EGYPT, MAY ACTUALLY ENDANGER DETERRENCE, ESPECIALLY IN SOUTH KOREA, THAILAND, PAKISTAN, SOMALIA, AND

TUNISIA. AT A TIME OF TURMOIL IN SOUTH YEMEN AND THE POSSIBILITY OF ITS RETURN TO A MORE AGGRESSIVE POSTURE, NORTH YEMEN AND OMAN NEED OUR SUPPORT. OMAN'S PROGRAM HAD TO BE REDUCED BY 53 PERCENT, AND NORTH YEMEN'S BY ALMOST 62 PERCENT. MOROCCO CONTINUES TO BE PLAGUED BY ECONOMIC PROBLEMS, INCLUDING THE DRAIN OF THE WAR IN THE WESTERN SAHARA, IN WHICH IT HAS BEEN OTHERWISE SUCCESSFUL. BUT WE WERE FORCED TO CUT FUNDS TO MOROCCO BY 26 PERCENT.

IN LARGE MEASURE, OUR PROGRAMS HAVE BEEN DESIGNED TO RESPOND TO SOVIET-SUPPORTED CHALLENGES AROUND THE WORLD. IN PRACTICAL TERMS, THIS MEANS THAT, WHEREVER THEY HAVE AGGRESSIVE CLIENTS OR ARE EXPLOITING LOCAL INSTABILITIES, WE TRY TO ASSIST THE NEIGHBORING STATES.

THESE CUTS WILL CERTAINLY IMPACT ON OUR SUCCESSFUL EFFORTS TO PRESERVE DETERRENCE IN AREAS OF POTENTIAL MAJOR CONFLICTS, ALTHOUGH WE WILL WORK HARD TO MINIMIZE THIS IMPACT. BUT WE ARE CONCERNED THAT CUTS TO THESE PROGRAMS WILL SEND THE WRONG SIGNAL TO TROUBLEMAKERS IN THIS AREA THAT THE UNITED STATES IS RETREATING FROM ITS STRONG ROLE IN THE REGION. WE ARE LIKEWISE CONCERNED THAT OUR REGIONAL FRIENDS MAY FALL PREY TO COERCION OR WORSE BECAUSE OF THE PERCEPTION THAT THE U.S. IS NO LONGER A RELIABLE SECURITY PARTNER. THIS POTENTIAL PERCEPTION IS EXPECIALLY DANGEROUS BECAUSE THE CHALLENGES FROM LIBYA AND SYRIA WILL PERSIST; THE WAR IN THE WESTERN SAHARA AND THE PERSIAN GULF WILL CONTINUE AND COULD EVEN SPREAD; AND SOVIET ACTIVITIES

WILL NOT ABATE--ESPECIALLY IF THE U.S. CANNOT PLAY A STRONG MODERATING ROLE IN THE REGION.

CHART 4: THE FY87 FINANCING REQUEST

ISRAEL

OUR FY87 SECURITY ASSISTANCE PROGRAM FOR ISRAEL SEEKS TO ADDRESS ISRAEL'S MOST PRESSING MILITARY AND ECONOMIC CHALLENGES. ALL FORGIVEN FMS FINANCING WILL ENABLE ISRAEL TO CONTINUE FUNDING ITS PRIORITY MILITARY REQUIREMENTS: HIGH PERFORMANCE AIRCRAFT, ARTILLERY, MISSILES, AND AMMUNITION. ECONOMIC ASSISTANCE, IN THE FORM OF CASH TRANSFER, SEEKS TO ASSIST IN MEETING BALANCE OF PAYMENT REQUIREMENTS AND TO ENABLE ISRAEL TO PROCURE NEEDED COMMODITIES AND SERVICES. WE BELIEVE THAT OUR FY87 SECURITY ASSISTANCE PROGRAM FOR ISRAEL CONTRIBUTES BOTH TO REGIONAL STABILITY AND THE SEARCH FOR PEACE BY HELPING TO ENSURE ISRAEL'S CAPABILITY TO DETER AGGRESSION.

EGYPT

FMS FORGIVEN CREDITS FOR FY87 WILL ENABLE EGYPT TO PROVIDE LOGISTICAL, MAINTENANCE, AND TRAINING SUPPORT FOR EXISTING WEAPONS SYSTEMS, PARTICULARLY IN THE CATEGORY OF AIR DEFENSE (SURFACE-TO-AIR MISSILES, RADARS, AIR DEFENSE INTEGRATION, F-16 AND E-2C AIRCRAFT). A SIGNIFICANT PURCHASE OF 155MM AMMUNITION FOR PREVIOUSLY PROCURED M-109 SELF-PROPELLED HOWITZERS IS ALSO EXPECTED, AND LARGE PROGRESS PAYMENTS WILL BE REQUIRED AS PART OF CASH-FLOW FINANCING FOR PREVIOUS

ACQUISITIONS. OUR IMET PROGRAM AIMS AT FURTHERING EGYPTIAN SELF-SUFFICIENCY BY TRAINING EGYPTIAN PERSONNEL TO OPERATE AND MAINTAIN U.S. EQUIPMENT. BY IMPROVING EGYPT'S DEFENSE CAPABILITIES AND PROMOTING ECONOMIC STABILITY WE SEEK TO SOLIDIFY THE ISRAELI-EGYPTIAN PEACE AND ENHANCE REGIONAL STABILITY.

SAUDI ARABIA

THE FY87 PROGRAM WILL BUILD ON PAST EFFORTS THROUGH THE SALE OF AIR DEFENSE WEAPONS TO SAUDI ARABIA. EFFORTS TO ENHANCE COMMAND, CONTROL, AND COMMUNICATIONS CAPABILITIES WILL CONTINUE, AS WILL A PROGRAM TO BETTER INTEGRATE THE AIR DEFENSE SYSTEMS OF THE KINGDOM. MODERNIZATION OF THE SAUDI NATIONAL GUARD WILL CONTINUE. THE CONTINUATION OF OUR LONG-STANDING DEFENSE RELATIONSHIP WITH SAUDI ARABIA AIMS AT PRESERVING U.S. ACCESS TO THE REGION, DETERRING EXPANSION OF THE GULF WAR, COUNTERING SOVIET INITIATIVES, IMPROVING PROSPECTS FOR REGIONAL STABILITY, ENCOURAGING COLLECTIVE REGIONAL DEFENSE IN THE ARABIAN GULF, AND ENCOURAGING CONTINUED SAUDI ASSISTANCE TO OTHER MODERATE ARAB STATES.

JORDAN

OUR FY87 FMS FINANCING PROGRAM WILL ENABLE JORDAN TO SUSTAIN CURRENT READINESS LEVELS BUT WITHOUT ANY SIGNIFICANT FORCE IMPROVEMENTS OR MODERNIZATION. FMS CREDITS WILL BE USED TO MAKE PAYMENTS FOR EQUIPMENT ALREADY ON ORDER, SPARE PARTS, AND TRAINING AMMUNITION. JORDAN'S AIR DEFENSE CAPABILITY WILL BE MARGINALLY

IMPROVED THROUGH THE PLANNED SELECTIVE UPGRADES OF F-5E AIRCRAFT AND THE ALREADY PURCHASED AIM-9P4 MISSILES. MODEST INCREASES IN JORDAN'S RESERVE AMMUNITION STOCKS ARE EXPECTED. THE IMET PROGRAM WILL SUPPORT THE CONTINUED TRAINING OF INSTRUCTOR CADRES TO IMPROVE JORDAN'S MILITARY SCHOOLS AND ENHANCE OPERATIONS, MAINTENANCE, AND LOGISTICS SUPPORT OF U.S.-FURNISHED EQUIPMENT. BY ATTEMPTING TO REDUCE DAMAGE TO A DEFENSE RELATIONSHIP FIRST UNDERTAKEN BY PRESIDENT EISENHOWER, WE ARE RECOGNIZING THE CENTRAL ROLE PLAYED BY JORDAN IN PROMOTING MIDDLE EAST PEACE AND REGIONAL STABILITY.

MOROCCO

WHILE THE PROPOSED LEVELS OF GRANT MAP FINANCING AND FMS CREDIT ASSISTANCE WILL NOT SUPPORT PURCHASE OF MAJOR NEW WEAPONS SYSTEMS, IT WILL PROVIDE FUNDS FOR OPERATIONS, MAINTENANCE, AND MUNITIONS COSTS ASSOCIATED WITH U.S.-PROVIDED VEHICLES, TANKS, ARTILLERY, AIRCRAFT, COMMUNICATIONS AND SURVEILLANCE EQUIPMENT, AND LOGISTICS MODERNIZATION EFFORTS IMET WILL FOCUS ON MAINTENANCE, LOGISTICS, NAVAL TECHNICAL TRAINING, AND AIR FORCE PILOT AND INSTRUCTOR TRAINING. SECURITY ASSISTANCE TO MOROCCO IS A VITAL ELEMENT IN OUR EFFORTS TO PROMOTE REGIONAL STABILITY, ENSURE OUR CONTINUED ACCESS TO MILITARY FACILITIES, AND ENCOURAGE A NEGOTIATED SETTLEMENT IN THE WESTERN SAHARA.

OMAN

U.S. PROGRAMS WITH OMAN ARE INTENDED TO ENHANCE COOPERATIVE DEFENSE AND SECURITY ARRANGEMENTS, INCLUDING THE 1980 ACCESS

AGREEMENT AND PERIODIC BILATERAL JOINT MILITARY EXERCISES AND OTHER FORMS OF COOPERATION SUCH AS THE NAVY'S INDIAN OCEAN BATTLE GROUP.

WHILE GREAT BRITAIN IS OMAN'S MAIN MILITARY SUPPLIER, OMAN HAS SHOWN INTEREST IN USING FMS FINANCING IN THE COMING YEAR TO PURCHASE C-130 AIRCRAFT, AIR DEFENSE ITEMS, ANTI-TANK WEAPONRY AND SUPPORT TO PREVIOUSLY PURCHASED U.S. EQUIPMENT. THIS PROGRAM WILL SUPPORT OMAN'S MILITARY MODERNIZATION FOR DEFENSE AGAINST IRANIAN THREATS AND FOR PARTICIPATION OF REGIONAL DEFENSE IN AN AREA OF CRITICAL IMPORTANCE TO STRATEGIC U.S. OBJECTIVES.

NORTH YEMEN

THE MAJOR GOALS OF U.S. SECURITY ASSISTANCE TO THE YEMEN ARAB REPUBLIC ARE TO DETER AGGRESSION FROM THE SOUTH, IMPROVE YEMENI CAPABILITIES TO COPE WITH A RENEWED INSURGENCY, AND BALANCE SOVIET INFLUENCE THERE. THESE GOALS HAVE RENEWED IMPORTANCE IN LIGHT OF UNSETTLED CONDITIONS IN SOUTH YEMEN AND THE CHANCES OF INCREASED RADICALISM THERE. YEMEN WILL USE MAP AND CONCESSIONAL FMS CREDITS ALMOST ENTIRELY FOR SPARES, SUPPORT, SUSTAINABILITY, AND TRAINING IN ORDER TO MAINTAIN EQUIPMENT OF U.S. ORIGIN. THE IMET PROGRAM WILL FINANCE TRAINING AND ORIENTATION TOURS IN THE U.S. AND AN IN-COUNTRY ENGLISH TRAINING DETACHMENT.

TUNISIA

GRANT MAP FINANCING AND FMS CREDITS WILL PROVIDE FUNDING FOR NEW AND REPLACEMENT EQUIPMENT, SUCH AS TRUCKS, UTILITY VEHICLES, ARTILLERY AND SUPPORT EQUIPMENT, AS WELL AS MAINTENANCE AND AMMUNITION TO SUPPORT EXISTING INVENTORIES IN AIR DEFENSE, RAPID REACTION, SURVEILLANCE, COMMAND, CONTROL AND COMMUNICATIONS, AND TRANSPORTATION. OUR TRAINING PROGRAM WILL FOCUS ON DEVELOPING PROFESSIONAL MILITARY OFFICER SKILLS AND PROVIDING THE TECHNICAL TRAINING REQUIRED TO UTILIZE EQUIPMENT OF U.S. ORIGIN. OUR SECURITY ASSISTANCE PROGRAM FOR TUNISIA SEEKS TO DETER AND COMBAT AGGRESSION FROM LIBYA, PROMOTE INTERNAL STABILITY, AND SUSTAIN A WORTHWHILE DEFENSE RELATIONSHIP WITH A STRATEGICALLY-LOCATED, PRO-WESTERN ARAB GOVERNMENT.

CHART 5: SECURITY ASSISTANCE ALTERNATIVES

WE HAVE CRAFTED A SECURITY ASSISTANCE PROGRAM FOR FY87 WHICH ADDRESSES THE MAJOR CHALLENGES WE FACE IN THE MIDDLE EAST: THE SEARCH FOR AN ARAB-ISRAELI PEACE SETTLEMENT; THREATS TO REGIONAL STABILITY; AND PRESERVATION OF U.S. ACCESS TO THE REGION.

THE STAKES ARE HIGH FOR THE U.S. THROUGHOUT THE MIDDLE EAST. NO ONE CAN ENVISION THE CONCLUSION OF A PEACE AGREEMENT BETWEEN ISRAEL AND ITS NEIGHBORS WITHOUT THE U.S. PLAYING A CENTRAL ROLE IN BRINGING IT TO FRUITION. WE CAN HARDLY PLAY SUCH A ROLE IF WE CONSIGN OUR SECURITY ASSISTANCE PROGRAMS IN MODERATE ARAB STATES

TO OTHERS WHO DO NOT SHARE IN THE INTENSITY OF OUR COMMITMENT TO ISRAEL'S SECURITY. NO ONE CAN ENVISION THE SUCCESSFUL LONG-TERM RESISTANCE TO SOVIET MEDDLING, IRANIAN AGGRESION, AND LIBYAN ADVENTURISM UNLESS GOVERNMENTS WELL-DISPOSED TO THE WEST CAN RELY ON THE U.S. TO MAINTAIN A STEADY, RELIABLE COURSE IN THE AREA OF SECURITY ASSISTANCE. FINALLY, IT IS DIFFICULT TO ENVISION THE U.S. BEING ABLE TO SUSTAIN ITS ACCESS TO THE REGION IF WE TELL OUR FRIENDS TO LOOK ELSEWHERE FOR THE HARDWARE, TRAINING, AND ECONOMIC SUPPORT WHICH LINK THEM TO THE U.S.

OUR MAIN THEME IS ONE OF CONTINUITY. IF OUR FRIENDS IN THE REGION FACE CHALLENGES WHICH APPEAR DAUNTING, THEY WILL NOT BECOME LESS DAUNTING IF WE REMOVE OURSELVES FROM THE SCENE. IT WOULD BE TRAGIC INDEED WERE WE TO RELEARN THE STRATEGIC IMPORTANCE OF NORTH AFRICA AND THE MIDDLE EAST FROM THE OUTSIDE LOOKING IN. ANY ATTEMPT TO PURSUE AN EFFECTIVE REGIONAL POLICY WITHOUT THE TOOL PROVIDED BY SECURITY ASSISTANCE WILL AMOUNT TO AN EXERCISE IN FUTILITY, BECAUSE THE PRIMARY CONCERN AND RESPONSIBILITY OF OUR FRIENDS IN THE REGION IS ONE OF PROVIDING FOR THEIR SELF-DEFENSE. IF WE STEP ASIDE, OTHERS WILL BE ALL TOO EAGER TO REPLACE US AND OUR INTERESTS, AT BEST, WILL BE UNCERTAIN AND, MORE LIKELY, WILL SUFFER.

CHART 6: MAJOR CHALLENGES

OUR FISCAL YEAR 1987 SECURITY ASSISTANCE PROGRAM FOR THE MIDDLE EAST SEEKS TO ADDRESS THREE MAJOR CHALLENGES: THE SEARCH

FOR MIDDLE EAST PEACE; THREATS TO REGIONAL STABILITY; AND PRESERVATION OF U.S. ACCESS TO THIS VITAL REGION. AS OUR NATION ATTEMPTS TO GRAPPLE WITH THE CHALLENGES POSED BY THE MIDDLE EAST, IT IS WORTH REMEMBERING THAT OUR SECURITY ASSISTANCE PROGRAM HAS BEEN A CORNERSTONE OF POSTWAR U.S. FOREIGN POLICY IN THE MIDDLE EAST, A FOREIGN POLICY WHICH HAS TRIED PATIENTLY -- WITH SOME SUCCESS -- TO CREATE CONDITIONS COMPATIBLE WITH U.S. NATIONAL INTERESTS AND OBJECTIVES. SERIOUS CHALLENGES REMAIN BEFORE US. WHATEVER DISAPPOINTMENTS AND PROBLEMS WE HAVE ENCOUNTERED IN THE MIDDLE EAST, THERE IS SIMPLY NO ACCEPTABLE SUBSTITUTE FOR CONTINUED U.S. PATIENCE AND PERSISTENCE IN PURSUING THESE CHALLENGES.

THE PRIMARY CHALLENGE WE FACE IS THE SEARCH FOR PEACE BETWEEN ISRAEL AND ITS NEIGHBORS. FOR NEARLY FORTY YEARS WE HAVE RECOGNIZED THAT THIS UNRESOLVED CONFLICT IS THE PRIMARY OBSTACLE TO THE CREATION OF A STRATEGIC CONSENSUS INVOLVING ALL OF OUR FRIENDS IN THE REGION. OUR SECURITY ASSISTANCE PROGRAM HAS BEEN DRIVEN BY TWO ASSUMPTIONS: THAT AN ISRAEL STRONG ENOUGH TO DEFEND ITSELF SUCCESSFULLY AGAINST ANY CONCEIVABLE ARRAY OF FOES IS AN ISRAEL SECURE ENOUGH TO TAKE RISKS FOR PEACE; AND THAT MODERATE ARAB STATES CONFIDENT ENOUGH IN THE CONSTANCY OF U.S. SUPPORT FOR THEIR LEGITIMATE DEFENSE NEEDS WILL REMAIN OPEN TO THE POSSIBILITY OF PEACEFULLY RESOLVING THEIR DIFFERENCES WITH ISRAEL. SUPPORT FOR ISRAEL'S SELF-DEFENSE IS ONE OF OUR UNCHALLENGED OBJECTIVES, AND AS SUCH IS A PERMANENT FEATURE OF OUR FOREIGN POLICY. IF, HOWEVER, WE LOSE PATIENCE IN OUR PURSUIT OF

CONSTRUCTIVE DEFENSE RELATIONSHIPS WITH MODERATE ARAB STATES AND UNILATERALLY ABDICATE OUR ROLE IN FAVOR OF OTHERS, WE WILL HAVE LOST A VALUABLE FOREIGN POLICY TOOL AND THE POLITICAL LEVERAGE WHICH ACCOMPANIES IT. FURTHERMORE, WE WILL HAVE DONE SO WITHOUT ACHIEVING ANYTHING IN RETURN.

THE ARAB-ISRAELI DISPUTE IS NOT THE ONLY THREAT TO REGIONAL STABILITY. SOVIET AGGRESSION IN AFGHANISTAN AND THE PRESENCE OF A REACTIONARY, XENOPHOBIC MARXIST REGIME IN SOUTH YEMEN SERVE TO REMIND OUR FRIENDS IN THE REGION THAT THE STRATEGIC CONSENSUS WE SEEK IS BASED NEITHER ON MYTH NOR THEORY. SOVIET ADVENTURISM IS REAL, AND THOSE STATES IN THE REGION WHICH LOOK TO THE WEST FOR SUPPORT LOOK FIRST TO THE U.S.

THE IMMEDIATE CONCERN TO OUR FRIENDS IN THE GULF REGION AT THE MOMENT IS THE THREAT FROM REVOLUTIONARY IRAN, A THREAT EXPRESSED IN TERMS OF BOTH CONVENTIONAL MILITARY OPERATIONS WHICH HAVE REACHED THE BORDERS OF KUWAIT AND THE PROSPECT OF INTERNAL POLITICAL SUBVERSION ABETTED BY THE FANATICAL CLERICS IN TEHRAN. THERE COULD HARDLY BE A LESS PROPITIOUS TIME FOR THE GULF STATES TO ENTERTAIN DOUBTS ABOUT THE CONSTANCY OF U.S. SECURITY ASSISTANCE. FURTHERMORE, OUR FRIENDS IN EGYPT AND NORTH AFRICA LOOK TO THE U.S. AS A RELIABLE DEFENSE PARTNER AS THEY CONFRONT A RADICAL REGIME IN LIBYA ARMED TO THE TEETH BY THE SOVIET UNION.

A KEY ELEMENT OF OUR NATIONAL STRATEGY IN THE MIDDLE EAST, AND ONE WHICH OUR SECURITY ASSISTANCE PROGRAM ADDRESSES DIRECTLY, IS TO HELP BUILD INDIGENOUS AND REGIONAL DEFENSE CAPABILITIES THAT PROTECT U.S. INTERESTS WHILE REDUCING THE NEED FOR DIRECT U.S. INTERVENTION. YET OUR INTERESTS, AND THOSE OF OUR ALLIES, DICTATE THAT WE RETAIN THE CAPABILITY FOR DIRECT MILITARY ACTION IF THE THREAT TO THOSE INTERESTS OUTWEIGHS THE CAPABILITIES OF OUR FRIENDS TO RESPOND EFFECTIVELY. ACCESS IS LARGELY A FUNCTION OF SECURITY ASSISTANCE. THE EFFECTIVENESS OF U.S. MILITARY INTERVENTION, SHOULD IT BECOME NECESSARY, WOULD DEPEND TO A LARGE DEGREE ON THE COMPATIBILITY OF EQUIPMENT AND TRAINING AND THE OVERALL QUALITY OF MILITARY COOPERATION DEVELOPED THROUGH YEARS OF SECURITY ASSISTANCE INTERACTIONS. OUR ACCESS TO THIS REGION IS THEREFORE DEPENDENT ON OUR WILLINGNESS TO PURSUE LONG-TERM SECURITY ASSISTANCE PROGRAMS WHICH CREATE STRONG LINKS BETWEEN INDIGENOUS FORCES PROVIDING THE FIRST LINE OF DEFENSE, AND U.S. FORCES WHICH MAY BE CALLED UPON TO RESPOND RAPIDLY IN THE EVENT OF A CRISIS. FROM THE POINTS OF VIEW OF OUR FRIENDS IN THE REGION, OUR WILLINGNESS OR LACK THEREOF TO PURSUE LONG-TERM DEFENSE RELATIONSHIPS HELPS THEM DETERMINE THE ANSWERS TO THREE VITAL QUESTIONS: ARE THEY CAPABLE OF RESISTING AGGRESSION? IS THE U.S. WILLING TO INTERVENE IF NECESSARY? AND, IS THE U.S. CAPABLE OF DOING SO RAPIDLY AND EFFECTIVELY?

IN VIEW OF THE STAKES INVOLVED, THE FUNDING LEVELS WE SEEK ARE APPROPRIATE. I FULLY UNDERSTAND THE BUDGETARY CONSTRAINTS WE FACE. THERE ARE MANY OTHER SECURITY ASSISTANCE INITIATIVES WE WOULD LIKE TO PURSUE IN THIS VITAL REGION, INITIATIVES WHICH WE

WILL PURSUE OVER TIME. THAT WHICH WE ARE ATTEMPTING TO ACCOMPLISH IN FY87 IS FULLY DEFENSIBLE, IF MODEST. I WOULD ASK THAT OUR SECURITY ASSISTANCE PROGRAM FOR THE MIDDLE EAST BE FULLY FUNDED.

I GREATLY APPRECIATE HAVING HAD THE OPPORTUNITY TO APPEAR BEFORE YOU, AND I WELCOME YOUR QUESTIONS.

Mr. OBEY. Thank you very much.

THE EFFECT OF DECLINING OIL PRICES ON LIBYA

Mr. Secretary, let me ask a couple of questions about Libya first before I move on to the basic Middle East questions. As you know, I think all of our allies, as well as the United States, would like to find ways to really change the conduct of the Libyan Government, make them less of a renegade.

Let me ask a couple of questions. How much—what has been the result on the Libyan economy of the reduction in oil prices that, combined with the oil glut from the highest amount of money that Libya was making on oil in their best year, what are they making today? Do any of you have that number?

Mr. MURPHY. I don't think we have the exact number. We can furnish that in the course of the day, Mr. Chairman.

[The information follows:]

United States Department of State

Washington, D.C. 20520

APR 22 1986

Dear Mr. Chairman:

This is in response to the questions you raised with Assistant Secretary Murphy during the hearing April 16 on foreign assistance to the Middle East.

Falling world oil prices have caused a significant drop in Libya's revenues from oil sales. On January 1, 1986, according to the Department of Energy's Energy Information Administration, the price a of barrel of Libyan crude oil was $30.15, its official OPEC price. For the week ending April 11, 1986, the spot market price for this same barrel was estimated at $13.40, according to Platt's Oilgram, a reputable industry source. In addition, there are reports that Libya's oil exports were lower this past winter than expected at least in part because of U.S. sanctions. The recent drop in Libya's oil revenue put further pressure on Libya's economy, an economy which has been deteriorating over the past several years.

Five U.S. oil companies are continuing limited operations in Libya under licenses granted by the Treasury Department. These licenses were granted to avoid windfalls to the Qadhafi regime which would result if the companies abandoned their concession rights and tangible assets. These licenses impose a number of restrictions on the companies' operations and the types of transactions in which the firms may engage. Treasury monitors the companies' operations and compliance. Treasury, of course, is responsible for administering U.S. tax laws and is preparing a response to your question concerning tax credits.

Licenses allowing these phase-out operations do not permit, among other things, the companies to sell their operations or assets to non-Libyan entities, unless those assets are being removed from Libya. These conditions were formulated in accord with our interest in seeing that other countries' companies do not fill in behind and profit from U.S. firms departing Libya and that the Qadhafi regime does not receive a windfall as a result of our sanctions.

Sincerely,

James W. Dyer
Acting Assistant Secretary
Legislative and Intergovernmental Affairs

The Honorable
David R. Obey, Chairman,
Subcommittee on Foreign Operations,
Committee on Appropriations,
House of Representatives.

Mr. MURPHY. But behind your question, would it be, is this going to in itself going to change the conduct of Libyan policy?

Mr. OBEY. I am just wondering do we have any idea of what percentage decline in oil revenue to Libya has taken place over the last year or so?

Mr. MURPHY. At a ball park, it would be more than 50 percent over the past two years.

U.S. OIL COMPANIES IN LIBYA

Mr. OBEY. Let me ask this. If we really are looking at long-term ways to make them understand that there is a price to be paid which will be felt politically in that country, one simply cannot avoid looking at the fact that they are still able to ship their oil and that we have got five American oil companies continuing to do business over there and making profits on the business that they do.

We have got Occidental Petroleum, W.R. Grace, Conoco DuPont, Marathon, U.S. Steel and Amerada Hess. What is our understanding of what their plans are in Libya?

Mr. MURPHY. Oil companies?

Mr. OBEY. Yes, and how do we get them out of the business of contributing to the revenue base of the Libyan Government?

Mr. MURPHY. The five companies you mentioned, Mr. Chairman, were covered in the President's Executive Order back in January and we put a target date of February 1st to suspend operations. That was the initial decision back in the first week of January.

ECONOMIC SANCTIONS ON LIBYA

Those five companies in oil exploration and development are not immune from the President's Executive Order. They are not immune from our program to bring about a total cessation of activities involving American business in the Libyan economy, however, those five have clearly the most complex case of how to get out of doing business.

They have had contracts which a couple of cases extend to the year 2010, 2019. The one thing the Administration didn't want was to give a windfall profit to Colonel Qadhafi by bringing about conditions that would force a fire sale, if you will, of their arrangements with Libya.

But they, working very closely with the U.S. Treasury, are launched on a program of bringing their activities to an end and not to involve any subtrafuge of using American subsidiaries or European subsidiaries to carry on their operations.

That was not an operation that could be suspended virtually overnight as was the remaining bulk of our trade with Libya but that program is going forward. They are covered by the orders and they are complying. It is simply a more complex role to comply for them than it would be for someone selling a product from the States to Libya.

Mr. OBEY. This area is certainly not an area of expertise for me, but I noticed on two different network programs following the attack on Libya two days ago, I noticed specific references being made to these companies and to the fact, for instance, that they are allowed to meet cash calls.

They can supply the cash to replace worn out rigs thus maintaining their capital investment and at the same time maintaining part of the oil producing capacity of Libya and, as you probably know, some of the critics of the situation are suggesting that, in fact, we ought to be doing more to tell those companies to pull the plug immediately.

They are suggesting—I would be interested in your response to this—they are suggesting in fact if those oil companies pulled the plug that Libya would not in fact experience a windfall because if they tried to nationalize the assets of those companies that in fact the eventual result would be a legal decision which would mean that they could be sued for a piece of the action on every barrel of oil they sold and in the process that would put them pretty much out of business in terms of selling oil on the world market because it would be too much of a hassle to buy Libyan oil given the oil glut today.

I am not expert in oil or the legal arrangements with the Libyan Government, but I have to ask whether or not it is true as some—what is your response to that general line of reasoning that some people follow that the State Department is making a mistake in taking at face value the assertions of the oil companies in this regard and that in fact we ought to be urging them to pull the plug now?

What is the response to that?

Mr. MURPHY. That we from the first day of the decision to go for total economic sanctions, we have been looking at the entire reasoning of trade and investment operations in Libya. These five were, as I said, had been engaged in the most complex transactions and operations in Libya.

If we could have pulled the plug without a windfall profit coming to Libya and it was estimated it was something on the order, as I recall it, of a billion dollars over the next several years, we would have done so.

There is a very tight monitoring system going on, coordination between Treasury and State to bring about compliance and to make sure that the distance between their operations and Libya is made clear and that their operations as American corporations are brought to an end as soon as possible.

I would be happy to ask for a report to be submitted to the committee on the present status of that program. I am not up-to-date on the latest details about it.

Mr. OBEY. Let me submit a series of questions for the record to you on this because a number of people in my office I talked to yesterday are quite critical of this arrangement and they think we ought to be pushing them a little harder.

Let me ask you this. Can you tell us, do these companies in Libya get the benefit of a foreign oil tax credit? Can anybody answer that?

Mr. MURPHY. Let us answer that specifically.

[The information follows:]

Question. The Administration has argued that American firms in Libya require a temporary license to continue operations in Libya while they seek to sell their assests. To do otherwise, they suggest, would leave the Libyans a "windfall of U.S. assets which they would simply nationalize.

However, others argue that the opposite is the case. Libya already controls the Board of Directors of the so-called Oasis Group of U.S. oil companies. They receive huge amounts of royalties and taxes from U.S. sales. If they were in fact forced to nationalize non-producting U.S. assets they would be automatically liable to a series of suits. These rulings would so complicate the sale of Libyan oil, that in the context of a world oil glut, no one would bother to buy Libyan oil. Following this line of reasoning we are actually protecting the Libyans under the guise of protecting our own firms.

Would you comment on this line of reasoning and explain why the administration does not accept it?

Answer. Protection of our own firms was not a major consideration in the decision to provide temporary licenses to the oil companies. The Administration fully intends that U.S. oil companies should withdraw from Libya at the earliest practicable time consistent with the objective of not abandoning assets which could then legally revert to the Libyan Government and result in a substantial economic windfall to Libya. Other U.S.G. objectives are not to allow the transfer of this business to foreign-based subsidiaries of the American firm and to avoid the sale of the assets to firms of third countries which would then assume the role formerly held by the U.S. companies. This could occur under the assumptions you describe. The licenses granted by the Department of Treasury have strict conditions and reporting requirements designed to achieve U.S.G. objectives.

As to the argument that legal problems would have deprived Libya of a windfall, our judgment was different. We reviewed the law and contracts and concluded that, if concessionaires were barred for a substantial period from meeting their obligations under the concession agreements, Libya would have a very strong legal case for terminating the concession without need of expropriation. In those circumstances we could not count on the ousted concessionaires tying up Libyan oil trade in the kind of litigation difficulties this argument assumes.

Question. Are U.S. oil firms still operating in Libya eligible for the foreign tax credit? If so, why? How much income has not been eligible for taxation by the U.S. as a result of this policy?

Answer. This information is within the jurisdiction of the Department of Treasury and has been referred to that Department for direct response.

Question. Are individuals working in Libya, such as those employed in the "manmade river" irrigation project still eligible for the individual foreign income tax credit?

Answer. Under the transactions ban announced by the President on January 7, U.S. citizens and permanent resident aliens of the United States (i.e., "U.S. persons") are not permitted to carry out financial transactions required for the purpose of travel to or work in Libya. Although dependents of Libyan nationals have been exempted, no licenses have been or will be granted for the purposes of employment. Accordingly, to claim foreign income exemption for Libyan-source income would be to claim exemption for unlawful income. Treasury can address whether this would be allowed. Certainly a tax contesting denial would have serious legal problems.

Question. How much money are U.S. firms still paying to the Libyan government is taxes and royalties?

Answer. The Department of Treasury is responsible for the implementation of the sanctions under the International Emergency Economic Powers Act, and issues the licenses which allow for the payment of taxes and royalties. Accordingly, this question has been referred to the Department of Treasury for direct response.

Question. The *Washington Post* on January 30, 1986 carried an article claiming that U.S. oil firms in Libya were "undermining" the intention of the President's boycott by "lending" oil to European firms. The consequence of these policies is to maintain Libya's revenues and productive capacity. Has the State Department followed up on these allegations? Are they true? What steps have been taken to alter these practices?

Answer. Oil company representatives have assured the Department of State that there was no truth to these allegations, and no information has come to the Department's attention which would gainsay those assurances.

In implementing our trade ban sanctions, one of our objectives has been to avoid providing the Libyans a financial windfall through relinquishment of assets. On February 7, the Administration announced that temporary licenses would be issued to permit the oil concessionaires to transfer their assets to Libyan ownership in orderly fashion. The relevant licenses were issued by the Department of Treasury which continues to monitor this process closely.

Question. The Administration has argued that American firms in Libya require a temporary license to continue operations in Libya while they seek to sell their assets. To do otherwise, they suggest, would leave the Libyans a "windfall of U.S. assets which they would simply nationalize."

However, others argue that the opposite is the case. Libya already controls the Board of Directors of the so-called Oasis Group of U.S. oil companies. They receive huge amounts of royalties and taxes for U.S. sales. If they were in fact forced to nationalize non-producing U.S. assets they would be automatically liable to a series of suits. These rulings would so complicate the sale of Libyan oil, that in the context of a world oil glut, no one would bother to buy Libyan oil. Following this line of reasoning we are actually protecting the Libyans under the guise of protecting our own firms.

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Question. According to an article in the *Los Angeles Times* January 11, 1986 private Libyan bank accounts in the U.S. are being used to "pay for international terrorist activities." Despite U.S. intelligence reports about this activity, the article states that "government officials have not moved to cut off the flow."

Can the State Department confirm or deny this story? If it is true, why has the administration not acted to end it, and what is now being done to accomplish that end.

Answer. By Executive Order on January 8, 1986, all Libyan government assets in financial institutions within the United States and in branches abroad of U.S. banks were frozen. Any and all disbursements from these frozen accounts is subject to specific license approval by the Department of Treasury. The Administration obviously will not permit use of these funds for purposes such as those described in the *Los Angeles Times* article.

Accounts of individual private Libyans have not been frozen. However, channeling any official Libyan funds through such accounts would be subject to our licensing procedures.

Mr. OBEY. My time has expired. I will come back to my other questions later.

Mr. Lewis.

ECONOMIC ASSISTANCE TO EGYPT

Mr. LEWIS. Mr. Chairman, I am not going to take a lot of time myself, but I must say your line of questioning was interesting, and very appropriate. I personally would like to see us broaden that question to a more general sort of policy consideration for countries like Libya where we have obvious difficulties and future problems.

Indeed, we ought to be probing our policy, our relations and how this relate to our appropriations process. It is a very worthwhile and I think potentially very productive line of discussion.

I would like to ask a couple of questions that focus specifically upon Egypt.

Some of it overlaps our concern today about Libya but I have some long-term concerns about our assistance programs to Egypt and the results that come from those programs.

During the time I have been on this subcommittee, I have asked a number of questions about the volume of aid that we give to Egypt and the obvious difficulties that Egypt has with her economy. It is almost classic as we discuss aid programs where we suggest to allies that they ought to consider X and Y economic considerations or changes and in Egypt's case I have heard that the diplomats on the other side of the table shrug their shoulders and say, well, you are going to give us the money anyway, aren't you? And the answer is, yes, sir.

Yet today Egypt's economy is in desparate shape. It is my view we should begin to learn the lesson that America's role should be to support democracies and expanded economic opportunity.

Our aid programs ought to be directed in that fashion and we should not just automatically support systems to the right or left just because they happen to be friends. In connection with that I would like some brief comment about Egypt's economy and any significant prospects or evidence that you have that our assistance is actually doing something to change their policies that could improve their economy.

EGYPTIAN ECONOMIC REFORM MEASURES

Mr. GREENLEAF. I would be glad to make some comments, Congressman. I think it is true that in general terms we feel the Egyptians need to take further action to improve their economic situation. Some of the policies that they might adopt we can talk about in a minute.

They have, however, in the course of the last year or so embarked on a process—we are looking specifically at the economic policy efforts—they have embarked on a process which in our experience really for the first time has demonstrated a willingness on their part at a very high level—at the cabinet level—to discuss with us where they ought to go from here and what policy changes they ought to make. They have made, in fact, some changes over the past year.

For example, they have cut some food subsidies rather significantly. They have changed some prices in the energy area. They also have made some effort to cut their budget, which I think they and we agree is still a problem. They have embarked as of this past month, as of March, on an economic reform program, a prospective program which we feel, if implemented, does have a significant prospect of making a difference.

Such things as reducing their budget by five percent which in Egyptian terms is a significant commitment. It is a kind of commitment in the past they haven't been willing to make. These commitments have been made to us in discussions that have taken place every six months or so, the next round of which will be taking place in approximately a week's time when Administrator McPherson goes to Egypt to meet with the officials of the Egyptian Government.

I might say in addition to these brief comments on economic policy reform, and Secretary Murphy may want to add others, that the Egyptian economy really is being buffetted by some major economic problems that to a great extent are beyond their control.

The decrease in oil prices is due to their own production of oil. But at the same time the remittances that Egyptians have been sending into the country from work in other oil-producing areas have declined as have the tolls from the Suez Canal which are a significant source of revenue. Tourism has plummeted.

So their problems are not all of their own making, although in our own view they need to do more on the economic front. As a result, their growth rates in the last two years have basically been half what they were prior to that.

Mr. LEWIS. A back-up comment to that is if you are going to protect yourself against short-term difficulties; fundamentals in the economy are important.

Yet in the years I have been here. I have seen some limited discussion of change, but no real change has taken place. Yet revolutions are started because people are hungry and Egypt hasn't done much about that from what I can see.

EGYPT'S REACTION TO U.S. MILITARY ACTIONS IN LIBYA

Let me ask another question which may round out this area of questions and comments. I can't help but be very concerned about the fact that Egypt has expressed alarm and strong resentment regarding our attack against Libya terrorism.

As I understand it, Egypt and Libya have had their own problems, that there has been terrorism across those borders and that they are not exactly in the best of terms. Nonetheless, in this case it would appear that Egypt has decided to support a country that has been an enemy of Egypt and has turned on her benefactor.

It is very difficult for me to get very excited about ongoing huge sums of money flows with that sort of reaction, regardless of the politics of the region. Give me a break. What would be your comment about that?

Mr. MURPHY. Yes, Congressman. I would say this. You will see out of the Arab League, you will see out of the non-aligned movement a ritualistic condemnation of U.S. attacks on any Third World country, as you see it. In the Arab League, I am not saying this to excuse the statement.

I haven't seen the statement you refer to of strong resentment of the attack. Qadhafi has stirred up trouble, targeted public officials for assassination in just about every Arab country of my acquaintance but when there is a public challenge of this nature the initial reaction is to ritualistically, rhetorically close ranks and say, oh, well, we don't approve of a major power attacking a small country. There are no illusions in Egypt about Qadhafi's intentions toward the Mubarak leadership toward Libyan dissidents in the country. It is hard to put together the reality of the Egyptian/Libyan relationship when you get a statement such as you have described coming out.

Mr. LEWIS. Mr. Secretary, I would like for us to begin making some statements of our own rather than our reacting in ritualistic standards saying that is the way they do it anyway. So long as we choose to send billions in aid, it seems we ought say in a direct way wait a minute, friends, this is serious business. Americans are being killed by Libyans and we don't think that sort of ritualistic response is acceptable to us.

I know that is not the State Department policy, but don't you think maybe a response in a little different form ought to be considered? This is an opportunity for you to shift gears.

Mr. MURPHY. I don't think that is the State Department ritualistic form. We have responded in terms of what the Secretary and President said the other night. We are not rolling over to anybody's statements.

I didn't think what I said would do anything but irritate you, but that is the reality out there, that they do tend to say he is a despicable member of the family, but damn it, he is a member of the family and you have got to say something.

Mr. LEWIS. I think we probably ought to remember that and as we, you and I think outside of the formal platform here. I would like to talk about the way those moneys are spent. Such a huge portion of our budget is for Israel and Egypt. In terms of their policies or lack of policies, I think maybe there is justification for us reviewing in a comprehensive way what has been the results of the huge dollar flow to Egypt in terms of helping poor people, improving the stability of their economy, et cetera.

It is a big hunk of our budget.

PRIVATE SECTOR GROWTH IN EGYPT

Mr. MURPHY. I would like to add just to what was said earlier about the need for reforms. One thing that we have pursued very hard is privitization, opening up to competition in a system that has been for the last 25, 30 years heavily government dominated, starting back in President Abu Nassar's time, that state socialism, government socialism, is the best way to develop the country's resources, it has not worked.

What we have found is an increasing debate which we encourage between Egyptian private sector leadership and the Egyptian Government about, come on, let's get more relaxation, lifting and simplification of these regulations; get on with it.

We have tried to do our share pushing for a bilateral investment treaty and outlining conditions that are going to be needed to attract private capital. If it is going to go in, it has got to make a profit.

There is a very encouraging investment which the Egyptian Government has given its initial approval to by General Motors for private car production. If that gets going in the near future, and we have hopes that it will, that is going to be the single, greatest injection of private enterprise thinking and proof of what our people can do in cooperation with both the Egyptian Government and the Egyptian private sector.

There is a very vigorous debate going on between Egyptians at the moment, between the relative roles of private and public.

ACCOMPLISHMENTS OF U.S. AID PROGRAM IN EGYPT

Mr. **Greenleaf**. Your last comment, Congressman, alluded to the AID program. I would like to offer a couple of bullets on that, if I could.

Mr. **Lewis**. Sure.

Mr. **Greenleaf**. There are a number of areas in which the AID program has made sone notable accomplishments. First, we have made a major investment in the energy area where there has traditionally been significant power shortages. Second, we have contributed to improving the quality of life of the people through a sizable investment in water and wastewater in an arid country where there are serious problems. Third, in terms of human resource development, we have through our support to oral rehydration therapy programs saved roughly 80,000 children's lives. Following up on Secretary Murphy's comment in the private investment, we have through our commodity import and private enterprise programs, been able to increase investment levels particularly in the energy and agricultural sectors. There are other accomplishments which I could add, but these are several examples.

[The information fellows:]

Additional Examples of A.I.D.'s Project Successes in Egypt

--The Basic Education Project (263-0139) demonstrates the importance of access to schools in the rural areas, especially for girls.

--In the two years since the first project schools became operational, the following facts were noted:

--Enrollment of 6-year olds increased 13 percent, 11 percent for boys and 16 percent for girls. This is one percentage higher overall than projected by project planners. In a sampling of villages studied thoroughly, the enrollment rate for girls in grade one increased dramatically, from 49 percent to 95 percent.

--The dropout rate in grades 2-6 decreased in both years. Analysis shows that once children enrolled, chances are greater that a higher number of them will continue until functional literacy is achieved.

--A new approach to medical training, introduced through the Suez Canal Community Health Personnel Training Project (263-0136), is now being adopted by other schools in Egypt and abroad.

--In a significant break with tradition, this project has developed a six-year program at the Suez Canal University Faculty of Medicine which is geared to providing greater student exposure to local health needs. First year students are placed in rural and urban health facilities. Patient health problems serve as basic learning units. As the students progress, they receive greater patient exposure and ultimately responsibility for diagnosing and recommending patient treatment.

--The Shoubra El Kheima Thermal Power Plant (263-0030) is the largest and most complex thermal electric generating project in which USAID has participated to date. The plant will consist of four-315 MW generating units that will supply 1,260 MW to the Egyptian unified power system; an output level equivalent to 60 percent of the Aswan High Dam installed capacity. A.I.D. is one of the two largest donors for this project, providing $263 million out of the $918.7 million total from six international donors and the GOE. The A.I.D. resources finance the services of Overseas Bechtel (OBI), the U.S. consulting firm responsible for managing and supervising the overall construction activity which involves 49 different contractors. A.I.D. is also financing major equipment systems for the plant (e.g., steam turbine generators, condensers, heaters). The quality of the construction work being produced by the predominantly Egyptian labor force is very high, equal to similar construction efforts in the U.S. The project construction effort is 18 months ahead of the initial schedule and $117 million below budget. Three of the four planned units are now operating, providing 945 MW of power and construction of the fourth unit will begin soon.

--The Water Use and Management Project (263-0017) has demonstrated that crop production can be increased by over 50 percent with reduction in labor and water use by making fairly simple adjustments in irrigation management, such as improved ditches and control structures, provision of other inputs, and farmer organization.

--The project found that farmers, working through their own organizations, could allocate water effectively and minimize waste. Transportation was improved and more land made available for cultivation by eliminating unnecessary irrigation ditches and drains. Farmers demonstrated that they are eager to join the problem-solving process if given the opportunity.

--The Production Credit Project (263-0147) provides short and medium term credit to the Egyptian private sector to finance the importation of goods and equipment from the United States. In essence, this is the private-sector equivalence of the CIP. In the first two years of operation, the project has approved 439 separate transactions valued at over $7.3 million.

--One example is Al Shanti, a family-owned firm which imports PVC resins and produces one to two thousand PVC granules each month. Most is sold in its granular form, and the remainder used on the premises to manufacture shoes, irrigation pipes, and woven polyethylene bags. The plant produces 4 million shoes each year and over 1.5 million bags. To date Al Shanti has used $964,000 of USAID financing to import PVC resins from the United States.

ISRAEL'S LAVI AIRCRAFT PROGRAM

Mr. **Lewis**. Please add to the record, as you see fit.

General Gast, Defense News has estimated that Lavi may be running at a cost of $24 to $27 million for a fighter versus an initial guesstimate of $16 million. Cost overruns are rampant.

Is there a reassessment of that program taking place? What is the status of that?

General **Gast**. Yes. The two governments are working to resolve differences in what they believe that the aircraft should cost. Should cost in the sense of what really shall it cost as it is developed in the field.

We have had a cooperative atmosphere between the two sides to try to reach a resolution to that because it impacts upon budgets for planning purposes. A resolution has not been achieved.

It is clear that the aircraft is going to cost more than it was originally estimated. Our intent here is not to try to influence the Israeli Government in any way as to what to do once we have resolved these differences and view as to what their plane should cost.

That will be their decision in accordance with the priorities of their outlays for modernization. It clearly does have an impact on the budget and we have expressed concern as to how it would fit into the budget as we look ahead, assuming levels of approximately what we have today, and their need for other modernizations.

But we have said, and we believe, that it is up to them to make that decision as to how to fit the Lavi in once it comes into the program.

Mr. **Lewis**. Thank you, Mr. Chairman.

General **Gast**. If I may add one other point as well, back to the economy, one of our programs with Egypt is where we can, and we don't conflict with our industry, is to help them produce some things in-country rather than procure from us. We believe that is good for any country to have their own sustainability, it also creates jobs rather than using their money to buy from us.

So I think there is some contribution we can make as well in their defense industry which will have a spin-off of some sort for other manufacturing capabilities.

MIDDLE EAST PEACE PROCESS

Mr. **Obey**. Mr. Mrazek.

Mr. **Mrazek**. Thank you, Mr. Chairman.

With the failure of King Hussein to move his peace plan forward, Secretary Murphy, would you characterize the process right now as dormant in terms of trying to find a solution to the West Bank question?

Mr. **Murphy**. I have heard frozen, dead, moribund.

Mr. **Mrazek**. Would you say that the death of Palestinian Mayor Mazri has set back the chances of persuading Palestinians who live on the West Bank, who have been opinion leaders, who are mayors of towns and villages, to become part of a slate of acceptable Palestinians who could participate in future negotiations?

Mr. **Murphy**. I think it did for a few weeks, Congressman. He was a good target. He was a good choice of targets if you want to try to derail the peace process because he was a candidate for that office who had been approved explicitly, tacitly, by the Israelis, the Jordanians and the PLO in terms of the Fatah leadership, when he was killed by, I believe the evidence is, by the Habash group——

Mr. **Mrazek**. In Syria?

Mr. **Murphy**. [continuing]. Operatives. Well, their headquarters are in Damascus, yes—operatives moving around the West Bank. They have never been arrested. Now, I don't think that derailed the interest of Palestinians in the West Bank in trying to take a better, firmer control of their own destinies.

They don't know quite how to do it. There are death threats out to the other mayors on the West Bank. Certainly it has given pause to individuals about identifying themselves with it. As he was accused of it, collaborating, of somehow working too closely with the Israeli authorities.

They are in a real bind how to move and to try to lead and help their own people and not be accused of being on one side or the other. I think I would call it, to use the words that virtually all of us have used here in Washington, in Jordan and in Israel, that this is a pause.

NEW INITIATIVES FOR PEACE

It is a moment for reflection to try to find how to move things ahead again. There are programs, some of which the Israelis have initiated, like returning land that had been taken over in the name of the Israeli Army, the military, for exercises, returning some 10,000 dunums of that in the last month to the Palestinians who had title or asserted title to that land over the years.

There are projects to work out more autonomy for the Palestinians. They are eager for this. They are reaching out for this. Primarily talking in economic, agricultural sectors. Jordan is interested in seeing that happen.

Jordan is very interested in seeing the quality of life improve on the West Bank and in Gaza and I think Peres has made it clear that is his intention as well. And with the slowdown in the Israeli economy, it is also helpful to Israel to see developments that help sustain them by the Palestinians themselves of their economic life.

SYRIA'S ROLE IN THE PEACE PROCESS

Mr. **Mrazek**. Can that process move forward if Syria, in fact, decides that it is going to provide an obstacle to any steps taken in that kind of direction utilizing that faction of the PLO, which is within Syria, as a tool and a weapon to frustrate the ambitions of the Palestinians you talked about?

Mr. **Murphy**. It is going to be—it always is a concern in the region what Syria's position's going to be toward the peace process. The Syrians basically don't think it is going anywhere because their point is that the Palestinians are too divided and the Arab States are too divided to agree on a negotiation.

Mr. **Mrazek**. Is that because it is in their interest to make sure that there were divisions? When we were in Damascus, members of the Foreign Operations Subcommittee sometime ago, they expressed utter contempt for Mr. Arafat and that entire wing of the

PLO and suggested that the only Palestinian freedom fighters are represented in the group headquartered in Damascus.

I am just wondering how insidious an approach they have to try to keep, if any, an approach which would keep the Palestinians divided and continue fomenting the kind of violence that we are concerned about.

Mr. **Murphy.** Well, they are interested, Syria is certainly interested in being involved in a settlement. It does not assess the prospects as ripe for going to the negotiating table. What it would do to obstruct movement by others to the table, I can't speculate on.

There has been an easing of relations between Jordan and Syria over the last six months. They are at least talking together in a way they hadn't done for several years and I think the Jordanians have made their point very forcefully to the Syrians they never intended to have a partial settlement.

They intended to have a general approach, but they were the ones that took it on their shoulders to kick the engine to get something started. The Syrians were suspicious of that, yes, and negative about it. But I suppose basically the bottom line is they didn't think it was going anywhere because of the divisions within the Arab states and within the Palestinian community.

How much of those divisions are Syria's responsibility, you could discuss in long term. Syrian opposition, I don't think, will deter people from trying to find the ways to moving the peace process ahead, but the Syrian role in that process is going to have to be taken into account.

Syrian influence is taken into account by the Palestinians, be it the PLO or the average citizen in the territories, by the Government of Jordan. They are a factor. They are a player. And it is not an easy one.

PALESTINIAN SELF-DEVELOPMENT AND AUTONOMY

Mr. **Mrazek.** I fully appreciate that. Short of a comprehensive time table for establishing the parameters of an overall agreement of the type that King Hussein was apparently working on and we, of course, are interested in seeing take place, can you see any type of short term strategy for developing an approach that allows palestinians on the West Bank perhaps broader autonomy within certain areas of control over their own lives such as agriculture, or other things that would suggest that some progress is being made or is, in fact, that taking place already?

Mr. **Murphy.** I think it is taking place. It is quiet. It is not spectacular, not dramatic, if you take the individual items I mentioned—I don't mean to say that it is the most dramatic but I do mention the return of the land by the IDF to Palestinian cultivation.

It was a sizeable amount of land. Perhaps that is the first sizeable return in the last several years. This thought being given to industrialists' association, manufacturers' associations, to some kind of West Bank owned banking facility.

There have been a number of things that have been worked on, being studied by the military administration on the West Bank, thought about by Jordan, by the Palestinians themselves.

There is a good deal of thought going into this. Now, does that give you a time table for the peace process? No. But does it give you a sense of hope out there for greater involvement, greater autonomy, self-development by the Palestinians? Yes.

So we think it is worth pursuing.

EXTREMISM IN THE OCCUPIED WEST BANK

Mr. **Mrazek.** How would you assess the seriousness of the problem when leaders like Meir Kahane appear bent on forcing confrontations by putting settlers into the heart of Arab quarters within some of these towns, Nablus, Hebron, and in a sense, almost fomenting the kind of violence that takes place with Israeli soldiers being killed and with that climate of violence. Of course, he is hoping to convince Israeli citizens that, in fact, his policy of simply throwing the Arabs out of the territory represents Israel's only real hope for the future? Assuming you were to agree that there are people who are trying to foment that kind of internal dislocation, would you say it represents a mounting problem or could you assess the seriousness of that concern?

Mr. **Murphy.** Well, I don't think that Meir Kahane represents in any sense a major figure in the Israeli spectrum. He is an extremist in Israeli political life and so is talked about by the Israelis themselves. There is extremism in every camp out there.

There is no shortage of it, but we talked about Qadhafi's efforts. Qadhafi is the one that invited Arafat to commit suicide a few months ago because of the agreement between Arafat and Hussein to move something ahead.

There are those who would like to derail the process, that would like to give a simplistic solution that the problems of 19 years of occupation can be easily solved by expulsion of all of the inhabitants or by instant—on the other side, instant return to status quo, ante 1967.

Neither is going to happen, but the worry out there is the younger generation that does not seem to be getting to know each other any better under occupation than before 1967, a deepening of the stereotypes, almost the caricatures of each other, Arabs are terrorists and Israeli Jews are expansionist Zionists.

The labels get cruder and cruder with the passage of time. But there is, nonetheless, in Israel, in Jordan, in the Palestinian community, a mass interested in a rational solution and as quickly as possible, but all sides are carrying a lot of baggage around.

Mr. **Mrazek.** Thank you, Mr. Secretary.

ECONOMIC ASSISTANCE TO THE WEST BANK AND GAZA

Mr. **Greenleaf.** Could I just add one point following up on that? In fact, the economic aid program we have in the West Bank and Gaza following the Secretary's quality of life initiative is the largest external bilateral economic aid program in that whole area dealing with agriculture, helping with unemployment problems and helping in education with scholarships for faculty and students who would otherwise would not have an opportunity to be trained.

I think it is one of our least well-known but most effective programs run largely through private volunteer organizations of which there are about half a dozen working in the West Bank and Gaza.

We are also looking toward further work, as the Secretary mentioned, in private enterprise to help with investment because there really are unemployment problems and lack of investment opportunities, which the people in the West Bank and Gaza are most interested in pursuing.

Mr. **Mrazek**. What is the level of funding again?

Mr. **Greenleaf**. $18 million for 1987 is our request for the West Bank and Gaza.

Mr. **Mrazek**. Thank you, Mr. Chairman.

Mr. **Obey**. Thank you.

U.S. OIL COMPANIES IN LIBYA

Mr. Secretary, I want to go back to the question of U.S. oil companies in Libya. This will take a little time, but I want to read excerpts from a couple of newspaper articles and ask you again to comment.

On January 30, an article by Jonathan Randal in the Washington Post said in part this, "Four major American oil companies operating here have stopped shipping Libyan crude, but in effect have undercut President Reagan's embargo by 'lending' or selling their production to oil companies of other nations, diplomats and industry sources said today.

"Libyan, West German, Italian and other oil companies have taken over the roughly 20 percent share of Libya's production involving American firms, according to the sources, who requested anonymity. They said this allowed Libya to maintain its output of $1.2 million barrels per day.

"The arrangements technically complied with the President's executive order to end all American transactions with Libya, the sources said, but violated its spirit. This puts the Administration in 'an embarrassing situation', a source said, following the European Community's rejection yesterday of U.S. demands that its members embargo Libyan oil.

" 'The net result is that the action of the American companies,' a western oil official said, 'is having absolutely no effect on Libya's overall income from oil export.' Almost all of Libyan oil is exported to Europe, Africa and Asia."

Then it says, "Now awaiting what the sources termed imminent State Department approval, the deal on passing along production involves Occidental, Amerada Hess, Conoco and Marathon."

And then goes on with several additional paragraphs. Now, my understanding is that these firms pay a huge percentage of their profits to the Libyan Government in the form of royalties and taxes and then are exempt from U.S. taxation under the foreign tax credit provisions of the U.S. Tax code.

Treasury just told one of my staff people that U.S. oil companies doing business in Libya are eligible for foreign income tax credit; I understand you were told by someone here, they are probably not. I am not sure who is right but I sure would like an answer to that.

I would certainly like to know if they are, whether the Administration feels that that is appropriate under the circumstances.

ASSETS OF U.S. FIRMS IN LIBYA

Secondly, my understanding of the argument that the oil companies make for giving them some time to get out of the situation is that if they pull the plug they will then be nationalized by the Libyans.

That, in effect, will create a windfall for the Libyan Government and, therefore, we would be doing them a favor, not doing them any injury.

However, a number of persons with whom we were in contact yesterday run a counter argument. What they tell us is that the Libyans already have de facto control of those assets from the royalties and taxes and through their control of boards of directors of the Oasis group, and that all of their contracts have a *force majeure* provision which guarantees automatic arbitration before the World Court in cases of nationalization.

No one expects the Libyans to abide by any decision in the World Court that would come down against them, but, in fact, this would then enable every barrel of oil, of Libyan oil, to be attached and would discourage anybody from buying it, which in effect would dry up the market for Libyan oil and really bring a point home that if they want to participate in the world, they better do it within certain bounds or suffer some real consequences economically.

That is the argument of the critics and they say in effect that because of this, the State Department ought to be telling them to pull the plug now. If you want to respond to that now, fine. If you would rather respond to it for the record, fine. But I would appreciate a response.

If you want to do it for the record very quickly so that we can make use of it in the legislative process if it is appropriate.

Mr. MURPHY. We can respond very quickly for the record. I don't want to mis-state.

I would just like to make the general comment that the companies are operating under very tight conditions, including their profits being put into escrow to remain there until they are out of Libya, and we agree, the U.S. Government agrees, that they have taken those steps to get out.

They are forbidden to market any Libyan oil but for the broader answer, let me get back to you for the record, as promised earlier.

Mr. OBEY. My understanding is they get around that; even though they are forbidden to directly market it, they get around that and still, therefore, help to prop up the Libyan economy.

FOREIGN ASSISTANCE IN THE PEACE PROCESS

Let me ask some other questions. I would like more specific responses. I don't ask them because I in any way lack faith in you. I think you know that I think you are an absolutely first-rate public servant and the country is lucky to have you where you are.

But I need to ask these questions because we are asked them all the time. On the issue of the Peace Process, the numbers are that under this Administration we have spent $32 billion for Israel, Egypt and Jordan, that is $6.7 billion or 26 percent more than the

$25.4 billion which the Ford and Carter Administrations together spent for those countries.

Under those Administrations we had the Sinai I Agreement in 1974, Sinai II Agreement in 1975, Camp David in 1978, Israeli/Egypt Agreement of 1979, and that since that time we haven't been able under this Administration to move that process forward.

Why after that spate of agreements, why? Is it just now we are down to tougher issues? In the past you had a number of initiatives coming out of Administrations which were forcing the Middle East parties to react.

I know we had the Reagan plan earlier in the President's term, but since then our strategy has been to try to let the parties themselves face their obligation to put together some alternatives.

That obviously has been a dry hole given what has happened with King Hussein's efforts. Should the Administration be tossing out alternatives to get people off dead center?

Should we be proposing a couple of options to the parties and asking them to react so that the situation does not remain dormant or dead or however somebody else described it as being?

Our strategy has been to let them lead. They obviously haven't been able to do it.

Is it time for us to begin to elevate the issues again and try to bring our influence to bear to get things moving?

If we don't, are we likely to see anything happen over the next three years?

Mr. **Murphy**. We had in 1977 the initiative taken by President Sadat to break through all of the knots and revisions of inter-Arab politics and make that move to go to Jeruselem. That started a process which led to— —

Mr. **Obey**. If I can interrupt. Some people suggest the reason he did that is because we scared the hell out of him when we suggested there ought to be an international peace conference to which the Russians were invited and that precipitated his moving.

I am not going to say that is correct or incorrect, but if that is the case, would that indicate maybe we ought to be scaring the hell out of some people again by making some proposals of one kind or another?

Mr. **Murphy**. That is a fair question. I have heard that reason for his moving back in the fall of 1977, that he didn't want to be hostage to the lowest common denominator, which he did think could be his probable facing an international conference with the Soviets, and with the Syrians and others.

He didn't want to be restricted. There is a very different power relationship between the remaining countries out there that have not made peace, Jordan, Syria—Jordan and Syria, specifically—the power relationship to Israel—Egypt did operate from, and has this enormous country, population base and giving it the confidence to move on its own.

What we tried to do when Hussein made his move to the PLO, which was the second major attempt, he tried 1982, 1983, and then 1985, until February of 1986. We tried to respond, talking and welcoming the King's efforts to focus on the process, how to get the procedures established to get to conference, direct negotiations.

We didn't come up with new ideas on substance feeling that those were best reserved for the negotiations, could only be handled in the negotiations. We laid out the parameters of our position back in 1982 with the Reagan initiative and we have refused to get drawn into a more detailed plan which we would put in front of the parties.

I think the fact is American energies are most usefully deployed when you have got the parties ready to negotiate and are getting into a negotiation. That is what it looked like could happen in the course of 1985, which is why the President said back—I think it was occuring during Hussein's visit, he thought it was still realistic to hope for the opening of talks at the end of the year.

It didn't work out, but we are reluctant to get much more specific on the issues than we have been so that because we have thought that that would keep the parties from engaging to negotiate the way that they are going to have to live with it.

They are the ones that will have to support the deal. Our philosophy has been "let them lead", to use your words, yes.

JORDANIAN INITIATIVES IN THE PEACE PROCESS

And Hussein tried to lead last year, tried very hard, and I think as of the end of January there was a prospect that he could have gotten the PLO to move with him on terms he had set forth as having to have unambiguous answers which was to accept those U.N. Security Council resolutions, to agree to negotiate with the State of Israel and to foreswear violence.

At that point in time they couldn't do it. They moved away from them, didn't answer the challenge. Should we be elevating our efforts or increasing our efforts?

You are onto a much harder set of issues, as you have indicated yourself.

Sinai did not have—was not the problem for Israel that particular West Bank is, that Golan Heights is. There is great apprehension about what the outcome will be.

We have said, and I think Hussein made that plain, as well as he tried to get the PLO into a negotiation, that there can be no guarantees.

It is a much more complicated set of problems waiting out there than confronted Egypt and Israel, serious and difficult as those proved to be. I think the will is there to get it moving. What more we can do, we are trying our best to come up with ways to encourage and to support.

Still it has to be the people in the region that present something we can work with. While that was out there in 1985, it finally didn't work in the course of the talks in Jordan last February.

Mr. OBEY. I know the President came up with the Reagan plan, the Arabs said "forget it, baby."

Mr. MURPHY. But Hussein didn't say forget it. He said, "go".

Mr. OBEY. That is true. But some of the others did. And I can understand why the President would be reluctant to put up another trial balloon people would simply throw darts at. What I think I hear you saying is—let me back up a bit.

FOREIGN ASSISTANCE SUPPORT FOR PEACE EFFORTS

I think Members are going to ask me if we bring anything to the floor. God knows if we can pass anything, but Members are going to say, I assume that sometime before I leave this Congress we are not going to be having to shell out these huge numbers of dollars to these three countries, especially the two countries, because to take Jerry's question, I don't see how Egypt or Israel does anything effective on the economic side as long as they are carrying the defense numbers that they are carrying and certainly it is screwing up Israel's economy, as well.

But what I think I hear you saying is for the foreseeable future we are still going to wait for somebody in the region to come up with another plan. Maybe that is right, but it sounds to me that that means that for the next three years pay the money but don't expect any real movement

Is that a reasonable assessment?

Mr. MURPHY. Well, the master plan is not to get Congress to continue to appropriate massive sums of money for no purpose. Be it the efforts we have made on the military programs or the economic development programs.

We have tried to keep on the military side the burden of by making it full, all-grant assistance since fiscal year 1985. On the development side, we put our best minds both in the Administration and using private advice, private economists, to get—try to get both economies onto a better self-sustaining basis.

It has not been an easy job. We see it has been more movement, more progress within Israel, although there is still some questions out there about avoiding re-inflation, avoiding another entirely such as they went through in 1984.

So we certainly share the desire to get the aid levels down. One way to do it is to get the economies themselves on a better basis.

That is not without hope. It is going to be extremely difficult in the case of Egypt, but they are working up a reform program. On the peace process, no, we are not going to rest on our oars for the next three years because every year is an enemy to a settlement. Every passage of another year makes it that much harder.

People get used to something or think they can't do any better, it becomes a habit. We don't want that to continue, that mindset to continue.

AMERICAN HOSTAGES IN LEBANON

Mr. OBEY. Let me ask one question going back to the hostages. You indicated that they are being held by this small group trying to get some of their own people out of prison in Kuwait. I guess my question is this.

When I raised the issue of the hostages with Syrian officials just a year ago when we were there they gave us their strong assurances they were doing everything they could to help.

Nonetheless, it is hard to understand how, given Syria's influence in that region of the world, it is hard to understand why there could not be more progress if they were seriously pursuing the release of those hostages.

I have to ask you, and you may not want to respond in public, but I would have to ask you anyway, is it our judgment that the Syrian assurances are really on the level or not, and why, given their influence, can they not be more helpful if they really want to?

Mr. Murphy. I think the Syrian assurances are on the level. There is no Syrian interest in not being helpful on getting the hostages out, be they American, British or French. We have tried to talk to all three nationalities, of course, trying to work hardest for our own in the first instance.

Why they can't do it is this particular mixture. It isn't just politics. It is this family tie between the prisoners—literally, family tie between the prisoners in Kuwait and those holding our people in Lebanon, at least several of those that are being held of ours in the control of this have small factions with clear good security, good ability to keep the whereabouts and the movements of the hostages very tightly and keep them away from Syrian attention or the Government of Lebanon's attention.

I know given the geography, given the smallness of the area you would think they could have been broken free long since but I have no doubt—I have no grounds to doubt the Syrian assurances they have been working at it and try to get them free.

They have publicly condemned hostage-taking and acts of terrorism. I think the terms of the relationship they would like with Paris, with London and Washington, it is in their interest to be helpful. That it hasn't worked, I can't give you a better explanation.

WELFARE OF AMERICAN HOSTAGES

Mr. Obey. What do we know about these hostages?

Do we have an indication of how many are still alive?

Mr. Murphy. We are acting on the assumption we still have six there. They published a photograph of one of them as having been executed. We can't confirm it so we are operating on the assumption of six.

DISCUSSION WITH SAUDI ARABIA ON OIL PRICES

Mr. Obey. Let me ask you a question about the Saudis. I don't want to get into the Bush flap on his comments to the Saudis about oil prices. I am confused about what we are telling the Saudis on that question.

Without spending a lot of time on it, can you clarify what the Administration has been saying to the Saudis in terms of oil prices?

And, secondly, and more importantly, when the Vice President was there, did he raise with the Saudis any questions about how the peace process could be moved forward?

I find it hard to figure out where they are on this whole issue.

Mr. Murphy. I am not the Administration's leading expert on oil pricing.

Mr. Obey. I know.

Mr. Murphy. What the Vice President talked to, he talked about it several times in the course of the trip to the press about our conviction to let market forces operate was the only answer to have an equitable pricing.

He has spoken to the issue of the dangers to U.S. national security if the oil sector in the United States and the related enterprises in banking, the financial world, are faced with a precipitous drop, the free fall in prices, that we all could benefit from, we all benefit from lower prices here in the States except there is a danger to the domestic industry.

So he did discuss that publicly while he was in the course of his tour. The Saudi's policy has shifted from being what they have come to regard as the fall guy of OPEC, lowering their production from 10 million to less than two million at one point a few months ago in an effort to stabilize prices, their conviction is they are one of the few producers in the world that is in it for the long run, for the 50, 100 years ahead of us.

Their resources haven't been fully explored yet, mapped out yet. So their interest is in predictability and stability in the oil production. But when they were faced with repeated acts of cheating on the quotas that had been apportioned within OPEC, and they are focusing primarily on OPEC, they moved to increase their production to put pressure on their colleagues to shape up.

That is as best as I understand the phenomenon of, first, the great decline in Saudi production and now the increase—they are up over four million barrels per day, I believe, now.

SAUDI ARABIA ROLE IN THE PEACE PROCESS

Mr. OBEY. Did the Vice President pursue with the Saudis any suggestion that either he had or they had that might move the peace process forward?

Did he explore with them anything they might do to try to get the Arabs back together in terms of having a more common view of what ought to come next?

Mr. MURPHY. In 1983, and again in the course of last year, the Saudi posture was that they would support whatever the Jordanians and Palestinians could agree on.

They don't see themselves as prime movers, not directly involved, but they would like to see things move forward into negotiations and to a settlement. They sponsored the fees summit pronouncement back in 1982 which really was the first Arab concensus that says there should be a political settlement instead of endless war and no negotiations, no concessions with Israel.

So that was what really guided the consensus for a decade or more. They took the initiative which was unusual for them to be so much out in the public in 1981, 1982, to say there should be a political solution.

They made some points which we don't completely agree with, but the basic thrust was get to negotiations. They don't see themselves designing a negotiation, but they do see the need for the Jordanians and Palestinians to cooperate and to stay together to have any prospect of moving ahead.

Mr. OBEY. I know what they have done in the past. My question is did the Vice President talk with them about anything that might happen next on that question?

Mr. MURPHY. Well, I don't think it is revealing anything surprising about the talks that they made their position clear that they would support a coming together again to avoid an eruption of the Palestinians and Jordanians so that talks could get started.

We made our position very clear it is in our interest to get these talks moving.

Mr. OBEY. Did he suggest anything to them that they might do? What I am trying to get at is are we sending out suggestions to the parties in terms of how they might start the process again?

Mr. MURPHY. Well, we are getting into a little too much detail, I am afraid, for the public session.

THE FUTURE OF ISRAELI ECONOMIC REFORM

Mr. OBEY. Okay. Let me ask you. We appropriated quite a bit of money over the last two years, for last year and this year, I should say, in order to stabilize the Israeli economic situation. They have obviously had some success on the numbers.

Stan Fisher and Herb Stein, published an article which I put in the record outlining that progress. I guess I would have two questions on that.

How much of that progress do we think is basic, substantive progress?

What kind of numbers do we expect to see in terms of the Israeli economy over the next year or so?

To what degree do we think inflationary pressures in the economy and other irregularities in the economy are still being masked by price controls that are in place now and how much of that progress on those numbers has been real?

I guess what I am trying to look at is when we are through this next year what do we think we are going to be seeing in the Israeli economy?

How do we measure whether it has been a success which is sustainable, long-term, or just a short-term improvement?

Mr. MURPHY. The notable achievement was the decline in inflation which went down from 27.5 in July to 1.3 in December. The budget deficit is down.

Interest rates are high and real wages have dropped. This has helped the Israeli Government keep the shekel/dollar exchange rate stable and has not had any adverse effect on the trade balance.

The foreign debt is stabilized. The maturity structure has improved and some short-term debt was paid off in 1985. But we are concerned that the stabilization program is vulnerable, remains vulnerable, that the major problem is going to continue to be government spending, that the new budget moves in the right direction but there is a growing pressure to re-inflate in view of the increase in unemployment.

Real wages are going to be, by this month estimated back to where they were last June. They had gone down about 20 percent in the course of the first months of the stabilization program.

You have got an agreement with the Histadrut, which has expired as of the end of March. They have to be renegotiated. These could all give rise to a resurgence in private consumption and deterioration in Israeli competitive positions in the international markets and start a new inflationary spiral.

So the key, and I think Stein and Fisher directed their thoughts to this in that article, is to find ways that increases in remunerating labor and capital, only to reflect a rise in productivity.

We think there is a need for additional restraint in the budget to offset the domestic demand and leave room for needed tax cuts and other reforms to accelerate the growth. So there are steps that the Government is considering and that we would support, tax reform, revitilization of the capital markets, elimination of rigidities in the labor market and streamlining of the regulatory environment in Israel.

These are problems on the front burner for the Israeli Government today, very active debating going on. Exactly where they will be a year from now I hesitate to predict, but I think there is a very keen awareness of the need to avoid getting back into the spiral that hit them so heavily in the course of 1983, 1984.

Mr. OBEY. Do you think they will be able to live up to the commitment they made to me that 1.5 was in fact a one-time shot and there would not be a need to add it again when we go around the next turn?

Mr. MURPHY. We have heard no suggestion for a request of that kind of support to be repeated.

FUNDING FOR THE MIDDLE EAST REGIONAL COOPERATION PROGRAM

Mr. OBEY. Congressman Waxman asked that I ask a question. He is concerned about funding for the Middle East Regional Cooperation Program. He says many of us in the Congress believe that lasting peace in the Middle East depends not only on getting governments to agree to peace treaties, but also on affecting basic attitudes people on both sides have about each other. Thus, he and a lot of others, including myself, support what he describes as the only program in our foreign aid effort that involves Israeli citizens and citizens of one of its neighbors in a mutual endeavor where they have a chance to relate to each other and not simply as Arab and Jew, but as professionals, scientists and even friends.

He points out that that program is Middle East Regional Cooperation Program, and that although AID asked for $5.8 million for the program in its fiscal year 1986 presentation, it is cut back to 2 million bucks this year. That was eventually raised to $3 million, but program has been hit pretty hard and he is asking whether this reflects the Administration's view of the program or what?

Mr. GREENLEAF. Mr. Chairman, it is true in response to the Waxman amendment, I think it was back in 1979, we did begin this regional cooperation program. We feel that it is a very important and successful venture there.

Four different groups of collaborators deal with arid lands, agricultural technology, health and another one that has to do with the Mediterranean and with water resources.

It is true that in the current fiscal year we have a $2.9 million figure rather than the original request which was essentially double that.

It is also true, however, that in 1987 we are requesting the 5.8 level, back up to where it was originally in 1986. I have met with three of the four groups during the past several months who have come in and we have had discussions with them about their progress. We have reports on a fourth as well.

We feel all the projects are going forward successfully. The budget cuts that we got in our regional program, affected not only the regional cooperation program, but also funds for Lebanon, funds for the West Bank and Gaza that we talked about earlier and a number of other pieces The regional cooperation program was hard hit, but the status of the various projects was such that we didn't think the cuts that were put forward would be significant in terms of curtailing the ongoing activities.

Moreover, there weren't any new initiatives. There weren't any new collaborative groups to come along which we had hoped there would be and which we had expected there would be.

When there weren't, we then felt that it was not as imperative to have the full funding level. Now, for 1987, we are back up to the full funding level.

We expect to have others coming in and we also expect that these groups will need roughly this amount. We think the program is going well and that that is true of each of the collaborative groups that the Waxman amendment put into play back five, six years ago.

Mr. OBEY. I have got three or four other questions I will insert into the record that you can respond to on this same point. Let me ask you a question on the Saudi arms sale.

ARMS SALE TO SAUDI ARABIA

The argument has been made we need to provide that sale in order to keep our relations open with an important Arab associate, that we need to demonstrate our support because of the Iran-Iraq war and yet the question is raised that given the timing for the delivery schedule of the defense equipment proposed that there really is no real connection between the Iran-Iraq war and this sale because these would be delivered a number of years down the line.

What is your response, either you or the General, whoever wants to respond to that?

Mr. MURPHY. Let me try part of that, Mr. Chairman. I think the need for it to go through at this point in time, and I guess we are into the formal notification period now, is a political signal to Iran. It is very much connected with the Iran-Iraq war, a signal along the lines that AWAC is constituted in Saudi Arabia over the last few years that we do support Saudi Arabia, that we are interested in containing that conflict and we put forward that sale at a time when the level of threats from Teheran was at a new high directed specifically at Saudi Arabia both on its oil pricing and its financial assistance to Iraq.

So the sale is a political signal which will also, as the missiles are delivered, fill a real military need. But I would put the emphasis on the political at this moment in time.

General GAST. I would only add the military requirement has existed for some time and there are many people who felt the sale should have been earlier rather than at this time. It is simply to provide that capability.

REPORT OF SAUDI ARREARAGE IN FOREIGN MILITARY TRUST FUND

Mr. OBEY. Let me ask you this. On January 24, 1984, the GAO issued a report that Saudi Arabia was behind in payments to the Foreign Military Trust Fund. Reportedly, that delinquency totaled a billion dollars.

Has Saudi Arabia paid or earmarked funds for the account shortages identified by GAO?

What is the Saudi trust fund status, especially considering the large funding requirements that would be necessary when the AWACs is scheduled for delivery later this year?

General GAST. The figure is $800 million now. They have made some payments and we are trying to arrange a payment schedule with them.

There is high level dialogue on that. There is not a dispute as to the amount. It is just a matter of working out the arrangements.

The Saudi trust fund, on the other hand, is sufficient to cover those arrearages, because there are sufficient payments on other programs in it to absorb that problem.

I don't foresee that this is going to be any problem to us as managers.

Neither of us like the fact, though, that there is an $800 million arrearage on one aspect of the program, that is, the Navy program. But there is no problem on the overall management of the program as sufficient funds are in the trust fund.

ARMS SALE TO JORDAN

Mr. OBEY. On the Jordan arms sale, the King said last year that the Jordan/U.S. military relationship was terminated. What did he mean by that? What do we expect Jordan to do? Do we expect them to turn to other countries for arms purchases?

Does the Administration expect or have any expectations at all that they would react to the October 1985 arms proposal?

Mr. MURPHY. I think the King meant by that to underline the fact, as he said to us in 1985 and two or three years before that, that he had a need for new fighter aircraft and he had a need for better air defense generally and that if he couldn't get it from us, which is where he would like to get his arms, he would have to go elsewhere.

So I am not up-to-date on what the result of his efforts to go elsewhere, but I assume he is in contact principally with European suppliers at this point in time. We do have ongoing programs. We do have a lot of American equipment in the inventory and I think the request for informations in the coming year reflects the need for spare parts and maintenance of that inventory.

There are not plans at the moment to reactivate the request that we discussed in 1985. It is, again, a case where we think the military need was evident.

The reality is it be filled from somewhere else and I think in the General's presentation he made our general, overarching concern evident that we don't think other countries have the same concerns about stability in the region that we do. They are going to sell arms.

Where he will get financing is an open question at the moment but their interest is in selling, beginning and end. It did also on the political side, complicate his dealings in the peace process because it looked as if we weren't serious in our support of him.

General GAST. Mr. Chairman, could I add something to that?

Mr. OBEY. Sure.

General GAST. I have had considerable discussions with the military, not the King, in that regard. Their point is that they had a good and solid and effective lasting relationship between the two militaries for some time and we had, in working together, been able to provide for legitimate defense requirements.

If providing for defense requirements was not possible within that context, they would have to turn to other sources. That is the context of their grave disappointment with the whole affair.

LAVI AIRCRAFT

Mr. OBEY. I have a number of questions on the Lavi, following up on Mr. Lewis' questions, I have two or three clarifying questions I would like to ask.

I would appreciate the Administration's guidance on this because, frankly, when I was in Israel I ran into a number of Government officials who were beginning to have substantial doubts about the Lavi. If we are in a tight situation financially we need to be asking these questions so I would appreciate a quick response to those.

Also I would like to put in the record—we are running out of time—I would like to put in the record for your response some questions on Oman, the West Bank, Gaza, and Lebanon.

I hate to delay this, but let me just put the questions on economic assistance to Egypt in the record also and ask you to respond to those.

CONGRESSIONAL EARMARKS ON FOREIGN ASSISTANCE

General, I wanted to ask you a couple of questions about your statement. On page 4 of your statement you said that you were worried disproportionate cuts forced by earmarked increases for Israel and Egypt may actually endanger deterrences, especially in South Korea, Thailand, Pakistan, Somalia and Tunisia.

Both of the countries you mentioned, Pakistan and Tunisia, received earmarkings by this committee and by the Congress. I am curious as to why you listed Pakistan there since we earmarked the full Administration request.

General GAST. Yes, sir. Of course, they were this past year. Our concern in the future is if we are to have the cuts that some people speak of, including yourselves, whether we will be able to maintain our effective defense relationship and enable them to offer deterrence for themselves, if we continue to earmark them—

Mr. OBEY. You are talking about the future?

CONCERN OVER FUTURE FOREIGN ASSISTANCE FUNDING

General GAST. Yes, sir. Not this year, but the future.

Mr. OBEY. On page 5, you say we are concerned that cuts to these programs will send the wrong signal to trouble-makers in this area that the United States is retreating from its strong role in the region. I, frankly, agree with that concern.

My problem is if we have that concern as I have indicated to you then we ought to be willing to pay for what we are buying so we are credible at least to ourselves if nobody else.

I would simply make the point I really think this is the Administration's choice. If they want these programs paid for, they are going to have to come up with the revenues to pay for them. Otherwise, they can't object to us when we recognize the fact Congress isn't going to cut cancer research and the others.

General GAST. I certainly understand your point. I think, though, my point was graphically shown there where I showed the blue and the red circles.

Mr. OBEY. I agree with that. If the Administration wants to do something about those blue and red circles, they are going to have to come up with a plan to pay for defending our interests in that region. I presume also your reference to Tunisia was an expression of future concern because again Congress specifically earmarked funds. In fact, the Administration tried to break that earmark at one point to move money to somewhere else.

General GAST. That is right. We are speaking of the future and the terms of our concern about the numbers that may come out of this congressional year.

Mr. OBEY. I just wanted to make one point before we shut down. On January 20, 1986, a certain fellow in this town said, "I never consider any budget cut bad." That fellow was the fellow who is occupying the Presidency at 1600 Pennsylvania Avenue. Maybe that was a flippant remark, but it was the "Reaganism of the Week" in Lou Cannon's column.

I would simply like to make the point that when the President does make remarks like that, it does make it very difficult to persuade lesser mortals on Capitol Hill that we ought to be standing by our foreign aid budgets because this is the least popular of all programs and I am the least popular of all the chairmen to have to bring a bill to the floor because of that.

I guess I would suggest if the President wants to defend these programs, he could help create a different set of atmospherics around here and a different atmosphere in which we have to deal with the most difficult of all appropriation bills.

He said it, you didn't. It is his responsibility but I had to make that point anyway. There was another question I wanted to ask, Mr. Secretary. It was on Egypt. I don't have it here.

Mr. MURPHY. Probably the one I wanted to avoid.

COMMODITY IMPORT PROGRAM IN EGYPT

Mr. OBEY. I will remember and I will call you and ask you. I do have a question which I will put in the record. It relates to the controversy surrounding the CIP program in Egypt because I think there is considerable controversy, as you know, about which way we ought to go on that and I will get you two questions I would like you to respond to for the record.

We are out of time and I do want to get over to see what is going on on the Nicaraguan vote. I appreciate your time and wish you good luck.

Questions for the Record

Cash Transfer Impact

Mr. Obey. ESP for Egypt until FY 1984 has been provided in the form of project support and commodity import support, with project support the dominant means. In FY 1984 AID-started distributing a portion of the ESF to Egypt in the form of cash transfers. AID has attempted to condition these cash payments, on commitments by the Government of Egypt to undertake certain development efforts and make economic reforms.

The FY 1987 request includes a cash transfer to Egypt in the amount of $115 million. What development efforts and economic reform have been achieved with past transfers? What development and economic reforms do you anticipate through the FY 1987 program?

Answer. U.S. cash assistance coupled with adverse exogenous events such as the decline in oil prices, has helped spur new initiatives from the Egyptians in their search for ways to reverse present economic trends. Recent reforms, faciliated in part by our cash transfer assistance, include the implementation of increased user fees for water, electricity and communication services, each scheduled to gradually approach its respective production cost level. Also, the government has made some progress in reducing its subsidy bill through higher prices for bread, gasoline, textile inputs, etc., and is stimulating increased agricultural production through higher farmgate prices for wheat, cotton and other products.

The cash transfers do facilitate progress in our economic policy dialogue. The current reform program of the Egyptian government, to be implemented in phases beginning in June 1986, grew out of ongoing discussions between the U.S. Mission and the Egyptians concerning ways to link our cash transfer assistance to progress in their economic reforms, as instructed by Congress. We anticipate that our assistance program and the policy dialogue will continue to contribute to implementation of needed reforms during the next couple of years. Priority areas include exchange rate reform, energy prices, debt management, and freeing up of the agriculture sector to allow for greater influence of free market forces. To the extent we succeed in promoting these essential reforms, we may also help unlock the flow of additional balance of payments financing from the World Bank and the IMF.

Cash Transfer and Control Over Assistance for Development Purposes

Mr. Obey. To what extent has providing funding in the form of cash lessened A.I.D.'s control over the use of the assistance for development purposes?

Answer. As cash transfers are for balance of payments support, the Government has no obligation to use the foreign exchange in any particular sector except that it not be used for military purposes. A.I.D. is therefore unable to undertake project-like monitoring of such cash transfers. Nevertheless, we have sought and received written assurances from the government that the Egyptian pound equivalent of these cash transfer monies will be used for development. We are satisfied that the Government of Egypt does use equivalent amounts of its own currency for such activities. It is also important to recognize that to date, the cash transfers have not been provided at the expense of the project portfolio. Thus, we continue to have considerable control over the use of our assistance for development purposes.

Egyptian Committee and Cash Transfers

Mr. Obey. What mechanism does A.I.D. have to determine exactly how the cash transfer is used?

Answer. The normal A.I.D. Project-type monitoring is not possible since cash grants, which are made for balance of payments purposes, are deposited in a country's central bank and commingled with other foreign exchange resources. Nevertheless, the Government has agreed in convenants signed in 1984 and 1985 to budget an equivalent amount of its own local currency for use in the health and housing sectors. The Government has in fact provided funds in these sectors that exceeded the orignial cash transfer totals.

PIPELINE

Mr. OBEY. For a number of years this Committee has pursued the issue of the backlog of ESF projects in Egypt. (Currently estimated to be over $1 billion.) How much progress have you made this year in working off the backlog, and do you have the room and ability to take on the approximately $700 million proposed in this year's program?

ANSWER. The size of the USAID/Egypt pipeline is no longer an issue of major concern. Egypt is currently expending its pipeline at the rate of 1.7 years. And the current pipeline represents only 2.03 years of obligations. In response to a previous HAC request for an explanation of the pipeline spend out ratio, A.I.D. had defined an expenditure rate greater than 4 years to be high. Over the last several years, the ESF pipeline (for both project and program assistance) has fallen steadily from $2.7 billion at the end of FY 1982 to $2.2 billion at the end of FY 1985. By the end of FY 1986, the pipeline is projected to decline to approximately $1.95 billion, consisting of $1.5 billion in project assistance and $0.45 billion in program assistance. This reduction in the pipeline is due largely to three main developments: accelerated project implementation, a change in the program mix, and deob-reob authority.

Many of the projects that were designed in the late 1970s and early 1980s have reached their peak implementation stages in the last few years and registered significant gains in expenditures. The Decentralization Program, for example, expended about $125 million in FY 1983 and again in FY 1984. The Private Sector Production Credit Project and projects in power generation reached their peak implementation phases in FY 1985. The large Cairo Sewerage II Project has begun major expenditures in FY 1986. Two recent developments in the program mix have also served to reduce the pipeline. The Decentralization Program has disbursed funds very quickly as grants to local governments. And, since FY 1984, annual cash transfers, which are disbursed immediately, have replaced at least $100 million in project funding annually.

Finally, use of deob-reob authority has allowed the Mission to remove slow moving funding from the pipeline and to channel it into faster moving activities. Since late FY 1983, approximately $135 million has been deobligated and reobligated (or designated for reobligation) into cash transfers or projects. As a result of these developments, the Mission anticipates no problems in handling the $557.7 million in project funds scheduled for obligation in FY 1986, of which only $183 million are planned for new project starts.

EGYPT'S PROGRESS IN CHANGING ECONOMIC POLICIES

Mr. OBEY. Egypt's economy is distorted by a costly and complex set of price controls and subsidies. What progress has the government of Egypt made in changing these economic policies? How has A.I.D. helped to promote these changes?

ANSWER. A.I.D. has achieved important policy progress through our large development program in Egypt. This has been done by focusing our policy dialogue on certain key areas which have high development priority, and in which we have been able to commit substantial resources over a sustained period. For example, major investments in electrical power generation have supported several electricity rate increases. The same pattern has occurred in the water and wastewater sector. Another example is the agriculture sector. The priority that we and the Egyptian government place on increasing food production and small farm productivity has encouraged the reform of pricing policies which influence farmers' production decisions.

We have also used cash transfer assistance to broaden the policy dialogue to encompass macro-economic reform proposals and Egyptian consideration of overall structural adjustment. As a result, in part, of our on-going dialogue and the economic cushion provided by our cash assistance, reform measures during the last half of 1985 include the following: procurement prices of wheat, rice, sugarcane and cotton increased 20%-30%; after an August increase of 38%, wheat prices approximate U.S. farmgate prices; electricity price increases of around 37% were implemented in July; prices of several sensitive consumer items, such as gasoline, bread and cigarettes, have all been increased; and, prices for air tickets and sea cargo rates were increased 60% in December.

HOLDING THE LINE ON CASH TRANSFERS

Mr. OBEY. Aside from the Supplemental Cash Transfer of $250 million in FY 1986, does the Administration intend to "hold the line" on any further cash transfer at $110 million, as shown in the FY 1986 CP? If not, why not?

ANSWER. A.I.D. expects to continue to distribute a portion of the ESF assistance in the form of cash transfers under circumstances of continuing balance of payments pressure, and in support of our macro-economic policy dialogue. A.I.D. will consider some increase in the cash component of our program only if it is related to the implementation of a comprehensive stabilization and adjustment program, which is aimed at closing the balance of payments financing gap and which can be supported by the international financial community. An appropriate adjustment program would address current economic problem areas and provide a policy environment within which A.I.D. assisted projects could have greater impact.

ESF TO EGYPT

Mr. OBEY. Does the Administration firmly intend to "hold the line" on Cash Transfer—as part of the basic $815 million ESF program for FY 1987—at $115 million, as (also) shown in the FY 1987 CP? If not, why Not?

ANSWER. The Administration intends to deal with the cash transfer issue in FY 87 in a similiar fashion as has been described above in FY 86.

Mr. OBEY. Does the Administration recognize that any combined amount of Cash Transfer and public- or private-sector CIP much above $300 million is likely to cut into the resources needed for essential, specific projects in agriculture, health, family planning and basic education?

ANSWER. The Administration recognizes that if circumstances were to lead to some increase in the cash or CIP portion of our program, it would be necessary to ensure that any reducation in the project portfolio base minimizes adverse impact upon those essential, specific projects in agriculture, health, family planning and basic education.

Mr. OBEY. Given the lack of Egyptian performance on significantly raising energy prices (still under 2¢/kwh) why is AID, according to the CP, planning to obligate funds for the Talkha Combined Cycle power plant at $60 million in FY 1986 and a further $20 million in FY 1987, and to obligate funds for the Shoubra Thermal Power Plant at over $20 million in FY 1986—a total of over $100 million in additional power-plant investments? Doesn't this undercut the extremely important U.S. effort to persuade the Egyptians to raise their heavily subsidized energy prices?

ANSWER. The decision to propose and eventually obligate funds for these two power sector projects in FY 86 was made following extensive discussion with the GOE on their short and long term energy pricing policy and the Government's willingness to implement price increases by 30% in mid-1985. The GOE is increasingly committed to reduce the immense subsidy support program, a major portion of which is for energy. A.I.D. will continue its efforts to persuade the Egyptians to further raise energy prices. It should be noted that both congressional and U.S. commercial interests also strongly encourage A.I.D. continual involvement in the power sector.

ENERGY PRICE CHANGES JUSTIFY SUPPLEMENTAL DISBURSEMENTS

Mr. OBEY. The $250 million Supplemental Cash Transfer for FY 86 is explicitly conditioned on basic Egyptian policy changes: Have sufficient changes occurred, in the Administration's judgment, to justify the release of this money, with particular reference to energy pricing? If the answer is yes, how is this squared with A.I.D.'s "Report on the Egyptian Economy and Debt Repayment Prospects—1986" (Jan. 30, 1986), which points to "rapidly increasing domestic consumption of all forms of energy, encouraged by very low prices"?

ANSWER. Egyptian government policy reforms in 1985, facilitated in part by supplemental cash transfer assistance, were far-reaching and politically difficult for the government. Those reforms were sufficiently indicative of Egyptian intentions for future measures to warrant tranched disbursement of the supplemental funds. Interagency evaluation of Egyptian progress in policy reform, after thorough tracking and consideration of implemented reforms, justified disbursements during late 1985 and early 1986. Specific implementation details for several policy reforms have been provided in response to other questions elsewhere in this series.

With particular reference to energy pricing, during 1985 the Egyptian government: raised gasoline prices by 25% to 33%; twice doubled the price of heavy fuel oil for electricity generating plants; and, increased the prices charged all electricity consumers by an average of 37%.

Analyses by the World Bank and the Massachusetts Institute of Technology reveal that at the low base for the price of energy in Egypt—currently about 20% of world market levels—consumer demand is not responsive to a price increase, even to the 1985 increases mentioned above. However, experience within a variety of economies indicate that as consumer prices continue to rise—Egyptians plan annual price increases over a ten year period—we can expect that cosumers in Egypt will become significantly more conservation-minded.

ECONOMIC ASSISTANCE TO EGYPT-POPULATION

Mr. OBEY. What is the current status of the Egyptian crude birth-rate—how much has this come down from its high point?

Concretely, what have the Egyptians done to enhance the effectiveness of their family-planning programs, and what degree of support does family planning have from the various segments of religious leadership?

Are we doing everything we can reasonably do to support an effective Egyptian family planning effort?

ANSWER. The crude birth rate, although still high, has fallen from 40 to 37 births per 1000 population in the past five years.

President Mubarak is keenly aware of the population growth issue. In 1985 he established the National Population Council to oversee the effective operation of family planning programs. He, himself, chairs the Council. In early 1986 he directed the main implementing ministries to develop a plan for improving the effectiveness of the family planning program. To date, however, the Government of Egypt has had limited success in implementing effective programs.

Although there have been some positive pronouncements on family planning from Islamic leaders, including the Grand Mufti in Cairo, there has not been a broadly based endorsement of family planning from religious leaders throughout the country. Major resistance on religious grounds still exists both within the government and among the general population. Program managers note, however, that there has not been any attempt to hinder family planning programs.

The Koran does advocate child spacing as a method of promoting the health of mothers and children. The National Population Council has initiated discussions about establishing family planning clinics in the mosques. Plans for this program are in the very early stages but such a program would indicate an endorsement of family planning on behalf of the religious leaders.

Yes, but the process remains difficult. A.I.D. has provided family planning assistance to Egypt on a bilateral project basis since 1977. The two bilateral projects have expended $69 million of the $170 million authorized. Plans for FY 1986 and 1987 are to concentrate on the support of family planning services and on improving planning and monitoring capability. The A.I.D. Mission in Cairo is working with the National Population Council and the implementing ministries to improve the program and is also working through the private sector.

The A.I.D.-supported private sector distribution of contraceptives has grown so that it currently supplies 72% of the contraceptives compared to 44% in 1980. A.I.D. is expanding its involvement with the private sector for implementation of family planning programs while continuing to offer assistance to the government agencies.

AGRICULTURE SUPPORT TO THE EGYPTIAN SMALL FARMERS

Mr. OBEY. What are we doing to support Egyptian small-farmer agriculture?

ANSWER. Support to the Small Farmer has been threefold.

Policy dialogue has resulted in a relaxation in farmer price controls of agriculture crops.

Research has developed and introduced new high yielding crop varieties for farmers.

Production credit loans to small farmers have increased.

As a result of the continuous policy dialogue, all farmers have benefitted from a relaxation of control over fruit and vegetable prices. In addition, wheat prices have increased by 38% while lentils prices have increased by 28%.

Similarly, they have benefitted from new, higher yielding varieties of cereals and rice which are disease resistant. These varieties have been introduced by the Major Cereals and

Rice Research and Training Projects. For example, one third of the total maize area is now planted with an improved composite, Giza 2 and a hybrid DC-202. Some final tests are now being conducted on some new varieties that have a 5-20% potential yield increase over the Giza 2 and DC-202. The new sorghum variety, G-15, is now grown in 40% of the sorghum area in the old lands while another variety, NES-1007 has just been introduced to farmers. These two varieties yield 63% more than traditional varieties. Likewise, new high yielding varieties have been released to farmers for food legumes, forage crops, wheat, barley and rice.

The Small Farmer Production Pilot Project has continued to provide encouraging results with respect to lending to small Egyptian farmers (farmers who own or rent less than five acres). In 1985, 27,000 production credit loans were made within the pilot project area (six governorates). This represents an increase of 34 percent over 1984. Production credit loans were provided for cereal and vegetable production, poultry and livestock production, and small irrigation improvement and mechanization projects. Since the start of the project (1980) 37,000 farmers have been served using approximately $61 million for production credit. Of all loans made since the beginning of the project 99.2 percent have been repaid on schedule.

PRIVATE ENTERPRISE CREDIT PROJECT

Mr. OBEY. A.I.D. recent informed Congress that it intended to obligate $235 million in ESF over the next two to three years to provide credit to the private sector in Egypt to allow the importation of raw materials and intermediate and capital goods to be used for productive purposes. As part of the program agreement the Government of Egypt will provide 60 million Egyptian pounds for program-related activities.

What controls are there on the use of dollars and local currencies provided under this program? Is there something similar to a Special Account for the deposit of all ESF dollars? How will the prices of imported goods by private importers be verified, or is some form of price checking not arranged for under the program? If not, why not? Please propvide for the record a complete description of the uses, controls, and reporting for all funds provided under the program.

ANSWER. This three-year project is being developed as an umbrella project to combine two previous, separate credit activities (a General Transactions Facility and a Project Financing Facility) and to add one new credit initiative, a Small-Scale Enterprise Credit Guarantee Fund.

(1) *The General Transactions Facility,* also called the Private Sector Commodity Import Program, will provide an estimated $117.3 million in short and medium term credit to the Egyptian private sector to finance the importation of raw materials and intermediate/capital goods and equipment from the United States. This project component originated in 1977 as the "private sector allocation" of the Commodity Import Program (CIP), which eventually totalled $137 million, and was succeeded in 1982 by the $88 million Production Credit Project (PCP) (A.I.D. Project No. 263-0147).

Procedures under the General Transactions Facility will be similar to those currently employed under the PCP which are as follows. Funds are made available, on a transaction basis as needed according to commitment and disbursement performance, to participating public and private sector banking institutions for on-lending to the private sector in accordance with terms and conditions described in an official GOE Circular prepared by the GOE and approved by USAID. Applicants (sub-borrowers) must submit, at one of the participating local banks, pro forma invoice(s) which specify the U.S. Department of Commerce Schedule B number for each commodity to be financed; the participating bank determines the eligibility and credit worthiness of the applicant and is responsible for insuring that the proposed transaction is in compliance with the official GOE Circular. All transactions are governed by A.I.D. Regulation 1 procedures. The banks bear the repayment risk for all transactions. After the completion of various project forms, the participating bank submits the transaction to USAID for approval. USAID reviews the transaction, and, if found to be in conformance with the program, authorizes the local participating bank, in writing, to open a Letter of Credit in favor of the U.S. supplier selected by the applicant. Payment, in dollars, is then made by the participating bank's correspondent bank in the U.S. to the U.S. supplier upon the shipment of goods. The local Egyptian businessman repays the loan in Egyptian pounds to the local participating bank under the terms and conditions as specified in the official GOE Circular. All principal and interest collected by the participating banks is immediately transferred to a Special Account at the Central Bank in the name of the Ministry of Finance, as is done under the CIP. USAID reviews all transactions processed by participating banks.

This review focuses on compliance with the terms of the Grant Agreement, confirmation of Schedule B numbers, review of pro forma invoices for compliance with good commercial practice, including price and maintenance of records by the bank on each transaction. USAID retains copies of all Letters of Credit issued by the banks and records the dollar amount of commodities actually shipped. The Office of Commodity Management in AID-Washington similarly maintains records for each transaction and reviews AID Forms 11 and 282 which must be submitted to A.I.D.

by the U.S. supplier for payment, in accordance with A.I.D. Regulation 1 requirements. Participating banks are also required to submit monthly reports to A.I.D., which include a transaction summary for the Letter of Commitment executed with the U.S. correspondent bank of the local participating bank and all Letters of Credit issued by the U.S. correspondent bank to individual U.S. suppliers; the monthly reports also discuss problems encountered and issues requiring resolution. Meetings between the GOE and USAID are held at least biannually to review the program and to determine whether any modifications to the official GOE Circular governing the program are warranted. Under the General Transactions Facility, these same control and reporting procedures, with one exception, will be followed with the ten participating local banks. Based on the highly favorable performance of the banks under the PCP, and given the large number of individual transactions contemplated (nearly 600 under the PCP), USAID has decided to accord the banks increased oversight responsibility on transactions and more authority to open Letters of Credit, with USAID spot-checking transactions periodically rather than approving every transaction.

(2) *The Project Financing Facility,* which is essentially a modified version of the Private Investment and Encouragement Fund (PIEF) (A.I.D. Project No. 263-0097) will provide about $117.3 million through four participating local banks to eligible Egyptian private sector borrowers in medium to long-term credit for medium to large scale plant start-up or expansion/modernization projects on a co-financed basis. The Fund will provide credit for the importation of U.S. equipment and essential services. Potential sub-borrowers will submit their applications to one of the authorized participating banks, who, by signed agreement, act as agents of the Fund. Each participating bank, using established criteria, will determine the technical, financial, and economic feasibility of the proposed project and present its recommendations to the Fund's Advisory Board at the GOE's Investment Authority. The participating bank is obliged to co-finance the project in the amount at least equal to the amount of the A.I.D. financing. After the Board reviews and approves the loan application, it is presented to USAID. If also approved, USAID authorizes the participating bank to open a Letter of Credit on behalf of the borrower in favor of various U.S. suppliers. As is the case with the other credit component, payment, in dollars, is made by the participating bank's correspondent bank in the U.S. to the U.S. supplier, and the local Egyptian businessman repays the loan in Egyptian pounds to the local participating bank. The latter transfers all the principal and interest collected to the Special Account at the Central Bank in the name of the Ministry of Finance. The review and reporting procedures for individual transactions will be similar to those described above for the other credit component.

(3) *The Small-Scale Enterprise Credit Guarantee Fund* is a new program intended to facilitate the access of small-scale enterprise to the formal Egyptian banking system and to allay commercial banks' fears of defaults by small-scale enterprises by insuring approximately 50 percent of the risk they face when lending to these small firms. Under this component, credit will be provided *in local currency* to small-scale business enterprises for working capital and/or to finance locally procured fixed assets, and will be funded by Egyptian pound repayments collected in conjunction with the other two credit elements of the project. The GOE has agreed to provide 60 million Egyptian pounds from the reflows from the project's two other components for the capitalization of the Fund. The program will be implemented through local commercial banks which are approved participants under the other two credit schemes. Banks will provide short- and medium-term loans in the LE 5000 to LE 100,000 range. Prior approval by USAID for each loan will not be undertaken; instead spot-checks will be done periodically. Compliance with the program's procedures, regulations, and funding criteria will be monitored through audit post.

In summary, the project has been designed to include an adequate number of controls and reporting procedures under each of the three credit facilities to ensure that the A.I.D. ESF dollars and the Egyptian local currency contribution are used for their intended purposes.

TUNISIA REPROGRAMMING

Question. On February 1, 1986, the Department of State notified the Committee of its intention to reprogram $5 million of the MAP funds earmarked for Tunisia to Guatemala. Only after pressure from Mr. Conte and other Members of Congress did the Department on March 21st reverse its decision. If Tunisia is of so much concern to the Administration, why did you propose reducing the funds provided by Congress?

ANSWER A strong military assistance program for Tunisia continues to be a high priority objective of United States foreign policy. This effort is centered on the modernization of Tunisia's armed forces to strengthen deterrence against potential Libyan aggression. The Administration's original decision to reprogram $5 million of FY 1986 MAP funds earmarked for Tunisia was necessitated by the major shortfall in overall MAP funds available for high priority countries as a result of congressional action which cut the Administration's request by 8% and the 4.3% G-R-H reduction. Given the fact that Congress has earmarked $14 million more in MAP for Tunisia than requested by the Administration, it was determined that the $5 million in question was more urgently needed elsewhere.

STATUS OF THE FY 1983 SUPPLEMENTAL FOR LEBANON

Mr. OBEY. PL-98-63 of 1983 provided $150 milion in Economic Support Funds for emergency assistance to Lebanon. After obligations to Lebanon and reprogramming to other countries, almost $22 million remains available for Lebanon. PL 99-190, the Continuing Resolution for FY 1986, states that funds not used in FY 1986 shall revert to the U.S. Treasury.

Of the some $22 million available in ESF for Lebanon, how much does the Administration expect will be utilized in FY 1986, and how much will revert to the Treasury or be reprogrammed? How will the ESF funds be used in that war-torn country?

ANSWER. Because of the nature of the no-year FY 1983 funding for Lebanon, AID anticipates obligations in FY 1986 from these FY 1983 ESF funds amounting to $15.719 million and $4.787 million in FY 1987 for activities detailed in the following table. In summary, these activities are ongoing programs of emergency relief and rehabilitation implemented by U.S. and Lebanese private voluntary organizations. This funding will also provide assistance to American educational institutions. (The obligations shown in the following table do not include obligations of funding appropriated in FY 1986.) AID's ability to carry out these plans, of course, is dependent on there being no significant changes in the political and security situation.

DISPOSITION OF THE FY 1983 SUPPLEMENTAL FOR LEBANON

Item	Amount	Balance
FY 83 Supplemental Appropriation		$150,000
FY 83 Obligations	$9,560	140,440
FY 84 Reprogramming for Grenada	40,000	100,440
FY 84 Obligations	27,209	73,231
FY 85 Obligations	13,775	59,456
Congressional Reprogramming (FY 85 Supplemental) Migration Assistnce, IAEA	16,100	43.43,356
Congressional Reprogramming (FY 86 CR)	22,850	20,506
Actual FY 1986 Obligations:		
Health Sector Rehab	1,000	
American Univ/ Beirut	4,000	
Pending FY 1986 Obligations:		
Relief Assistance	9,250	
Small Value Procurement	250	
Relief/Rehab Planning	100	
Beirut Univ. College	[1] 19	
International College	100	
American Univ./Beirut	1,000	
Total	[2] 15,719	4,787
Anticiapted FY 1987 obligations American Univ/Beirut	4,787	0

[1] Total obligations for BUC in FY 1986 are planned to amount to $500,000 made up of $19,000 shown here plus the remaining funds from a FY 1985 deob-reob.

[2] Total obligations for Lebanon in FY 1986 are expected to be higher than this figure because of obligations of FY 1986 Appropriation funds for Lebanon and the deob-reob for BUC among others.

MANAGEMENT OF USG FUNDING FOR LEBANON

Mr. OBEY. The Government of Lebanon is not yet able to exercise effective control over much of the country.

Is the United States assistance program channeled through a government of limited autority or is some assistance channeled through regional or sectarian groups?

What assurances are there that our assistance is reaching the intended beneficiaries?

Answer. The major part of the United States assistance program is channeled through U.S. and Lebanese private voluntary organizations (PVOs) such as Save the Children Federation (SCF), Catholic Relief Services (CRS), World Rehabilitation Fund (WRF), and YMCA of Lebanon.

Part of this funding is provided in direct grants to three U.S. educational institutions: American University of Beirut, Beirut University College, and International College. Some limited funding is managed directly by the Mission, which signs and monitors grants with Lebanese institutions for procurement of relief equipment (medical equipment, ambulances, and the like) and for relief activities like those now being implemented by the above PVOs.

No ongoing programs are being implemented through Government of Lebanon agencies.

The PVOs have their own systems of monitoring the implementation of their programs. The reports of these monitoring systems are reviewed with the AID Mission in Lebanon. SCF, for example, has a system of written reports discussed at weekly staff meetings of regional program directors in East Beirut. The SCF program coordinator based in the U.S. visits Lebanon periodically and has discussed the results of these visits with both our Mission Director in the field and with AID/Washington staff. World Rehabilitation Fund's program is largely training, most of which takes place in Cyprus. Catholic Relief Service has a Lebanese staff that monitors implementation and meets periodically with USAID/Lebanon staff. To date the AID Mission has been satisfied with these monitoring systems and believes that these programs are reaching the intended beneficiaries.

The U.S. educational institutions in Beirut have internal financial monitoring systems which they use to report fiscal data to their U.S. offices.

West Bank and Gaza Strip

Mr. Obey. The United States is engaged in a multi-year project to improve living conditions and the quality of life in the West Bank and Gaza Strip, territories occupied by Israel since 1967. Educational, agricultural, health, sanitation, water and community development projects are being implemented by the USG and by private voluntary organizations (PVOs). Does U.S. and PVO involvement in the West Bank/Gaza projects, in effect, embroil the United States in the controversy between Israel and the Arabs over the sovereignty of the territories? Through its involvement, is the U.S. tacitly favoring Israeli control or, conversely, Palestinian independence or is the U.S. otherwise perceived as taking sides?

Answer. The projects undertaken in the West Bank and in Gaza have not embroiled the U.S. in controversy over the sovereignty of the territories. Our political position regarding the territories is well understood. The relatively small AID-funded PVO program meets social and developmental needs that are recognized by both Palestinians and Israeli officials, and does not tilt either toward permanent Israeli control or an independent Palestinian state. The program's request level for FY 1987 is 1.5% of the request level for Israel.

Mr. Obey. Some PVOs working in the occupied territories have complained that Israeli officials are uncooperative and are obstructing the United States-sponsored projects. Can any of these charges be substantiated? Is there evidence that some of the PVOs encourage the Palestinians to resist Israeli authority, or that certain of them have expressed sympathy with the PLO?

Answer. The PVOs working in the territories have experienced varying degrees of difficulty in obtaining approval of their projects by Israeli officials. In recent months, however, the project clearance record has improved. A backlog of pending project proposals remains, but the problem is less severe than it was a year or two ago. While projects may not move forward as rapidly as we would like or expect, most eventually receive clearance, and assistance does reach the intended beneficiaries. There is no evidence that any of the PVOs encourage the Palestinians to resist Israeli authority or that they have expressed sympathy with the PLO.

Mr. Obey. Describe some of the West Bank/Gaza projects. What have they accomplished? What improvements in the quality of life have resulted from the projects?

Answer. American Near East Refugee Aid (ANERA) has been working closely with the Tarqumiya Agricultural Cooperative on the West Bank since 1978 when it provided $120,000 to purchase small bulldozers to clear land for the planting of olive trees. In 1979, a grant of $100,000 was used to create a revolving loan fund to help member farmers defray land reclamation expenses, and an additional $150,000 that same year was instrumental in the development of a plant nursery for the production of olive seedlings for members at minimal cost. Lastly, $200,000 was granted in 1983 towards purchase of a modern olive oil press. The Tarqumiya Cooperative contributed $976,000 of its own funds for these activities. All four sub-projects provide much needed services to cooperative members. The cooperative's success is illustrated by its dramatic increase in membership, from 28 in the late seventies to over 1,400 currently.

Two hundred and forty faculty members of West Bank and Gazan institutions of higher education are currently receiving, or have received, Masters or PhDs at U.S. universities since AMIDEAST began its human resource development project with AID funding in 1978. The project, which initially trained faculty for three West Bank universities, has been expanded to include four more institutions, including Gaza Islamic University, the only institution providing post-secondary education in Gaza. Over one-third of university faculty in the Territories now hold Masters or PhDs obtained in the U.S. and this number will increase when current students complete their graduate studies. The project has been particularly instrumental in developing and establishing high quality educational institutions, such as the Arab College of Medical Professions and the Hebron Polytechnic, that provide training in much needed technical skills to a population that highly prizes education.

Water is a very limited resource in the Middle East and every effort is made to conserve it. ANERA's largest project is Gaza Municipal Rainwater Conservation in which funding is provided for construction of a large underground conduit to channel rainwater into an artificial lake within the city limits. The lake, which has been pumped free of sewage and deepened, will collect rainwater that now disrupts traffic and damages buildings in the city center. The water will be used for recreational and irrigation purposes and will also percolate into the underground aquifer to raise the water table and help stem the intrusion of salinity. The project will benefit all 180,000 residents of Gaza City and is considered so important that the Israeli Government is providing funding for construction on a matching basis. The Community Development Foundation (CDF) is also very involved in water conservation and distribution projects. Over the past eight years, it has funded 50 small self-help village projects that have ranged from building reservoirs and laying pipes to cleaning old Roman cisterns and aqueducts to provide water for both domestic and agricultural purposes.

U.S. COMMITMENTS TO OMAN

Question. Is there anything in the 1980 Access Agreement between Oman and the U.S. that commits the United States to provide foreign assistance to Oman?

Answer. There is an important relationship but not a legal obligation. Oman is the only country in Southwest Asia with which we have an agreement granting U.S. forces the use of facilities. Given Oman's critical location on the Arabian Peninsula at the Strait of Hormuz, this security arrangement is central to our military strategy for Southwest Asia and cannot be duplicated.

Economic assistance is a key part of the overall U.S.-Omani bilateral relationship, and is thus important to our security relationship with Oman. At the time of the signing of the Access Agreement in 1980, we also agreed to set up an AID program to help in Oman's development. The Administration pledged its best efforts to maintain economic assistance levels at $15 million for the duration of the agreement (until 1990). In FY 85, we raised ESF to $20 million after Sultan Qaboos's personal request to the President, thus raising our pledge.

The FY 87 ESF level of $18.8 million, a $3.8 million increase over FY 86, makes it clear that we want to stay close to the $20 million level and that the Administration honors the pledge of its best efforts to assist in Oman's economic development.

(If asked) At the time of the 1980 Access Agreement, we also pledged our best efforts to maintain an FMS program. While the Omanis have not used many of their FMS credits over the last few years, $40 million for FMS in FY 87 will be a positive sign to the Omanis at a time when Oman's economy and defense budget are being hard pressed by the fall in oil prices. Although Oman's FMS credits continue to accumulate unused, declining interest rates make FMS financing of major military purchases more attractive, and Oman's current economic difficulties make financing more needed.

AID TO OMAN

Question. Oman has a per capita income of $6,250 and makes extensive use of the U.S. access facilities which we paid more than $300 million to construct. Why should we in a limited budget situation be increasing or even providing assistance to Oman?

Answer. In contrast to other Gulf states, Oman's known oil reserves are modest, and will be depleted in less than twenty years at present production rates. Oman was a medieval state until 1970. Because of the large-scale development effort required to modernize the country since then, Oman has always needed outside assistance to augment its modest oil revenues. Over the last several years, as the price of oil has dropped, Oman has increased its oil production to sustain its development. Particularly over the last six months, the price of oil has decreased so dramatically that Oman has been unable to raise its production to offset the decline in prices. The country is currently producing about 550,000 bpd, and is near its maximum production. Even with significant reductions in development planning which it has taken this year, Oman faces increased deficits.

Despite progress in building a basic infrastructure, Oman's long-term stability depends on the development of alternative economic sectors to replace oil in the relatively near future. They cannot do that without outside assistance.

US military construction funds have been spent to build and improve facilities in Oman for use by US as well as Omani forcies. In a contingency, should the US and Oman agree that a US military deployment is necessary, we would need more extensive facilities than Oman would require on its own. We have upgraded Oman's facilities for this purpose.

FUNDING FOR THE ISRAELI LAVI AIRCRAFT-COST INCREASES

Question. For several years now the Congress has included language providing funding for the Israeli LAVI aircraft program. I understand that this program has become very controversial in Israel and that the Administration feels that development cost of this airplane have skyrocketed. Would you tell the Committee whether, in light of these costs, further development of this aircraft makes military sense?

Answer. One of the areas examined by the U.S. study team was the military requirement for replacement ground attack aircraft. It was our opinion that, given the existing and projected growth in the threat plus the increasing age of Isreal's existing A-4 and KFIR aircraft, a replacement weapons system was appropriate. The team did not express a judgement on whether the LAVI was the correct solution; it merely pointed out our estimate of the cost associated with the solution. The team leader, Dr. Dov S. Zakhiem, deemed it inappropriate to examine alternatives at that time. The study did point out, however, that if our estimate was even close to being correct there would be a serious displacement of the items currently planned for procurement through U.S. military assistance.

Question. Would you tell the Committee what the level of these increased costs are?

Answer. A detailed independent cost analysis of the development and production cost for the LAVI aircraft was conducted by a U.S. government team. The results of this analysis show that while the U.S. and Israeli estimates for development were fairly close (within approximately 12 percent) the Israeli estimate for the cost of production is approximately 50 percent below U.S. estimates. Should the Committee require additional details, a copy of the classified report can be provided.

Question. Would you tell the Committee what support exists within the Israeli government for continuing this program.

Answer. The official Israeli position remains supportive of the LAVI.

Question. Would you tell the Committee what is the position of the Administration in regard to having Congress continue to earmark funds for this purpose?

Answer. To have funds set aside for any particular program tends to be counterproductive in that it reduces the U.S. and Israeli governments' ability to make tradeoff decisions as the need of Israel change.

JORDAN ARMS

Last summer the President proposed to provide Jordan with aircraft, an air defense system and ground support equipment in order to supplement Jordan's defensive capabilities and to ensure Jordanian participation on the peace process with Israel. Later the arms sale was postponed indefinitely. King Kussein was quoted as saying that Jordan's military relationship with the United States was "terminated".

Question. What did King Hussein mean when he said the Jordan-U.S. military relationship was "terminated"?

Answer. The United States and Jordan have sustained a close military relationship for many years. Jordan has placed high value upon this relationship, as have we. The King's words express the Jordanian view that, due to Congressional opposition, our inability to provide Jordan with the defensive arms that both our governments agree it needs implies that the United States no longer wishes to sustain this relationship. We continue to hope we can find a way to provide Jordan with these eminently justifiable arms.

Question. Will Jordan turn to other countries for arms purchases?

Answer. I can only refer you to the Jordanian statements which followed the outcome of the arms package, namely that Jordan will now seek to meet its defensive needs wherever it can.

Question. Does the adminstration expect to re-activate the October 1985 arms proposal?

Answer. We remain convinced that Jordan has major defensive needs which must be met. Likewise, we consider ourselves bound by the commitment to notify Congress 30 days before proceeding with any LOA's for items included in the arms package. Beyond noting those considerations, I think it is premature to speculate what further actions might be taken.

Question. Will Jordan enter peace talks with Israel without a Palestinian representative present?

Answer. The Jordanians have consistently maintained that they cannot speak for the Palenstinian people. They insist that Jordan can only enter negotiations with Israel with the participation of credible Palestinian representatives.

Question. Does Jordan still believe that the PLO is the only representative of the Palestinian people?

Answer. In his February 19 speech on the peace process, King Hussein made clear his conviction that the Palestinians must choose their own representatives. He outlined carefully his belief that the current impasse in the peace process is the result of the PLO's actions. Having set forth Jordan's views, Hussein called upon the Palestinians to decide for themselves whether the PLO was effectively representing their interests. It is now up to the Palestinians to decide how they proceed.

MIDDLE EAST PEACE PROCESS

Question. Are there West Bank and Gaza Strip Palestinians willing to enter direct peace talks with Israel? Would they join with a Jordanian delegation without explicit permission of the PLO? Would Israel accept West Bank/Gaza Palestinians in a joint delegation if the Palestinians were associated with the PLO?

Answer. Prime Minister Peres, Defense Minister Rabin and other Israeli Government officials have stated that they would agree to negotiate with a joint delegation which included any West Bank and Gaza representatives resident in those territories.

It does not seem likely at the present time, however, that credible Palestinian representatives—whether or not resident in those territories—would agree to join such a delegation and enter into negotiations with Israel in the absense of renewed political coordination between Jordan and the PLO.

MIDDLE EAST PEACE PROCESS: U.S. POSITION ON PLO

Question. In King Hussein's February 19th Statement he indicated that the United States agreed to an international peace conference to which the PLO would be invited if the PLO accepted Res 242 and 338, recognized Israel and rejected terrorism. Was the King correct in his interpretation of the U.S. position? Has the United States changed its position on the concept of an international peace conference?

Answer. In his February 19 speech, King Hussein referred to three questions or conditions he had put to the PLO—they were his, not ours. The U.S. position on recognition of and negotiations with the PLO remains unchanged.

In the context of the intitiative launched by King Hussein, we attempted to construct a package that would facilitate direct negotiations between Israel and a Jordanian-Palestinian delegation, looking toward the establishment of peace between Israel and all its Arab neighbors. The international conference was one of the elements of that package. Given the failure of the PLO to meet the King's challenge, the package was never completed. In any case, it would have been implemented without agreement by all sides.

The essential next step remains: direct negotiations between Israel and its Arab neighbors.

ADEQUACY OF THE PAKISTAN LEVEL

Question. General Gast, Congress in its FY 1986 action earmarked the Administration's full $325 million request for Pakistan. Why have you included that in the list of countries effected by budget reductions?

Answer. The reference to Pakistan in the list of countries on page 4 of my testimony reflects our concerns regarding adequate funding of its security assistance program for FY 1987 and the outyears. If the budget stringencies experienced in FY 1986 continue or are exacerbated, funding for Pakistan's security assistance program may have to be reduce. This would send the wrong signal regarding the strength of the U.S. commitment to the Government of Pakistan and could be perceived by our allies and adversaries as an indication that we are retreating from our strong role in the region. It should also be noted that Pakistan's FY 1986 program was reduced 4.3% below the earmarked level of $325 million in accordance with Gramm-Rudman-Hollings.

PROBLEMS IN COLLECTING MILITARY SALES PAYMENTS FROM SAUDI ARABIA

Question. Has Saudi Arabia paid or earmarked funds for the account shortages identified by GAO?

Answer. (The first portion of the response is classified. The information is contained in Subcommittee files.)

Currently, although there are individual Saudi cases in arrears, the Saudi Arabia Trust Fund overall has $3.7 billion in collections in excess of disbursements. However, the DoD continues to make periodic efforts to obtain collections on any FMS case in the arrears.

Question. What is Saudi Arabia's trust fund status, especially considering the large funding requirements that may be necessary when the AWACS aircraft are due for delivery later this year?

Answer. The Saudi Arabian FMS Trust Fund overall is in a financially sound position. Against total open sales of $44.3 billion, we have collections of $32.8 billion and disbursements of $29.1 billion. The DoD regards the current balance of $3.7 billion of collections above disbursements as sufficient to meet reserve requirements for possible termination of programs, as well as to meet any increased expenditure requirements in connection with AWACS. At current monthly expenditure levels, our on-hand cash position provides 17 months of working funds. Additionally, MODA's revised practice of stamping FMS cases so as to insure budgetary approval serves to prevent any new shortfalls from developing.

WEDNESDAY, APRIL 9, 1986.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

WITNESSES

ALAN L. KEYES, ASSISTANT SECRETARY FOR INTERNATIONAL ORGANIZATION AFFAIRS

AMBASSADOR McCORMACK, ORGANIZATION OF AMERICAN STATES

Mr. OBEY. Excuse me for being late.

This morning we will hear from Mr. Alan Keyes, Assistant Secretary for International Organization Affairs, Department of State.

For the IOP account, the Administration is requesting $186 million, 30 percent below the current level of $265,971,000 provided as the 1986 post-sequestration level. This '87 request is also $10.2 million below the Administration request for '86. In 1985, these programs received $362,275,500.

In short, the Administration's total request for 1987 is approximately one-half the level of the 1985 funding for these programs.

I think it is interesting to note, in comparison, that the Administration's request for grant military assistance over the last five years has increased by 700 percent, in real terms—I mean, in nominal dollar terms.

Additionally, the Administration has pending before this Committee a revised rescission proposal dated March 20th, which claims to cut $39,760,000.

Mr. Keyes, I do not know how intimately involved you were in developing the rescission request, but I hope it was not at a very intimate level because I frankly think the Administration request is politically stupid and I think it is substantively and procedurally outrageous.

The fact is that when I make a deal, I stick to it. And I do not appreciate it when we reach a compromise, we reach a conference number between the two houses—one of which is controlled by the party of the President—and we obtain votes for the package, based on that compromise. And then two seconds after the ink is dry, the President says oh, by the way fellows, that deal is only until it was signed and now we want to cut a new deal.

There is little incentive for compromise in the legislative system when the Administration uses the rescission and deferral process to try to re-open old arguments. Or, for that matter, when it tries to use the supplemental process to re-open old arguments.

I think it would be nice, in this country, if once we make a decision for a fiscal year, that decision is final. There eventually have to be some winners and some losers. And I have, in the past, resisted re-opening accounts even when I have lost the argument because I think that it is better to get on with the new arguments rather than continue to chew the cud on the old ones.

The other point I would simply make on the Administration's request is that it is technically a joke because it—in the process of reducing by almost $48 million the number of accounts in this program, it masks requests for increases of $8 million in other accounts. That is not a rescission. A rescission reduces money. A rescission is not an instrument which reduces some accounts to increase others.

That is just a second crack at the same old cat and it is not going to wash on this committee.

So I would hope that the Administration would understand that the arguments over last year's budget are over. The arguments over this year are going to be tough enough and I would urge them to get on with the business of trying to defend their budget requests for this year, which I am sure you will ably do here this morning.

We have—well, the floor is now yours, for whatever statements you want to make.

Mr. KEYES. Thank you, Mr. Chairman.

Mr. Chairman, it is a pleasure to present the President's Fiscal Year 1987 budget request of $186 million for the International Organizations and Programs account.

This request will fund U.S. voluntary contributions to development, humanitarian, and scientific assistance programs of the United Nations and the Organization of American States.

Before addressing the specifics of our request, I wish to comment in general on it and some of the key differences between the 1987 request and previous requests.

First, the total request level for FY '87 is markedly below the amount appropriated for FY '86 and even less than the amount requested for FY '86. This reflects both the overall budget constraints which the Administration and the Congress recognize must be observed. And in view of these constraints, a realistic assessment of what can be achieved by the programs and activities funded through this account.

At a time when the Administration and the Congress are living with Gramm-Rudman-Hollings, we must seek only the minimum essential requirements to multilateral foreign policy objectives. The U.S. contributions to these organizations must be considered in relation to all other claims on the federal budget.

When domestic programs are subject to severe and unavoidable budget stringencies, we cannot ask to exempt multilateral foreign assistance programs.

The multilateral organizations covered by this account have programs in technical assistance which are administered through governments. These programs are not central to the development effort, though they can play an important catalytic role. And this is the way we believe they can be most effective.

We must be realistic about what the programs and activities funded through this account can achieve. Working within the severe budgetary constraints we face, and understanding the important but limited roles these programs play forced us to make some hard choices.

No longer could we continue business as usual. With the reduced resources available, we had to rethink our priorities. We had to recognize and tailor our requests to the fact that some programs in this account more directly serve specific U.S. interests than others.

We have distributed the reduction in the account to maintain funding levels for those programs directly serving specific U.S. interests, while still maintaining an appropriate leadership role in the other important programs.

Given the severe austerity we face, this is not a time for wringing our hands. Rather, it provides us with an opportunity to consider programs in the light of these resource constraints. The result is a request that seeks to define clearly what constitutes our interests and to determine how well those interests are served.

Mr. Chairman, in light of the constraints that have now developed on our time, I would request that the rest of my statement be read into the record, so that we can have sufficient time for our dialogue.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Alan Keyes follows:]

STATEMENT OF
ASSISTANT SECRETARY OF STATE
FOR INTERNATIONAL ORGANIZATION AFFAIRS
ALAN L. KEYES

BEFORE
SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
APRIL 9, 1986

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PLEASURE TO PRESENT THE PRESIDENT'S FISCAL YEAR 1987 BUDGET REQUEST OF $186 MILLION FOR THE "INTERNATIONAL ORGANIZATIONS AND PROGRAMS" ACCOUNT. THIS REQUEST WILL FUND U.S. VOLUNTARY CONTRIBUTIONS TO DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ASSISTANCE PROGRAMS OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES.

BEFORE ADDRESSING THE SPECIFICS OF OUR REQUEST, I WISH TO COMMENT IN GENERAL ON IT AND SOME OF THE KEY DIFFERENCES BETWEEN THE FY 1987 REQUEST AND PREVIOUS REQUESTS.

FIRST, THE TOTAL REQUEST LEVEL FOR FY 1987 IS MARKEDLY BELOW THE AMOUNT APPROPRIATED FOR FY 1986, AND EVEN LESS THAN THE AMOUNT REQUESTED FOR FY 1986. THIS REFLECTS BOTH THE

OVERALL BUDGET CONSTRAINTS WHICH THE ADMINISTRATION AND THE CONGRESS RECOGNIZE MUST BE OBSERVED AND, IN VIEW OF THESE CONSTRAINTS, A REALISTIC ASSESSMENT OF WHAT CAN BE ACHIEVED BY THE PROGRAMS AND ACTIVITIES FUNDED THROUGH THIS ACCOUNT.

AT A TIME WHEN THE ADMINISTRATION AND THE CONGRESS ARE LIVING WITH GRAMM-RUDMAN-HOLLINGS, WE MUST SEEK ONLY THE MINIMUM ESSENTIAL REQUIREMENTS TO SUPPORT MULTILATERAL FOREIGN POLICY OBJECTIVES. THE U.S. CONTRIBUTIONS TO THESE ORGANIZATIONS MUST BE CONSIDERED IN RELATION TO ALL OTHER CLAIMS ON THE FEDERAL BUDGET. WHEN DOMESTIC PROGRAMS ARE SUBJECT TO SEVERE AND UNAVOIDABLE BUDGETARY STRINGENCIES, WE CANNOT ASK TO EXEMPT MULTILATERAL FOREIGN ASSISTANCE PROGRAMS.

THE MULTILATERAL ORGANIZATIONS COVERED BY THIS ACCOUNT HAVE PROGRAMS OF TECHNICAL ASSISTANCE WHICH ARE ADMINISTERED THROUGH GOVERNMENTS. WHILE THESE PROGRAMS ARE NOT CENTRAL TO THE DEVELOPMENT EFFORT, THEY CAN PLAY AN IMPORTANT CATALYTIC ROLE -- AND THIS IS THE WAY THEY CAN BE MOST EFFECTIVE. WE MUST BE REALISTIC ABOUT WHAT THE PROGRAMS AND ACTIVITIES FUNDED THROUGH THIS ACCOUNT CAN ACHIEVE.

WORKING WITHIN THE SEVERE BUDGETARY CONSTRAINTS WE FACE, AND UNDERSTANDING THE IMPORTANT BUT LIMITED ROLES THESE PROGRAMS PLAY, FORCED US TO MAKE SOME HARD CHOICES. NO LONGER

COULD WE CONTINUE BUSINESS AS USUAL; WITH THE REDUCED RESOURCES AVAILABLE, WE HAD TO RETHINK OUR PRIORITIES. WE HAD TO RECOGNIZE AND TAILOR OUR REQUEST TO THE FACT THAT SOME PROGRAMS IN THIS ACCOUNT MORE DIRECTLY SERVE SPECIFIC U.S. INTERESTS THAN OTHERS. WE HAVE DISTRIBUTED THE REDUCTION IN THE ACCOUNT TO MAINTAIN FUNDING LEVELS FOR THOSE PROGRAMS DIRECTLY SERVING SPECIFIC U.S. INTERESTS WHILE STILL MAINTAINING AN APPROPRIATE U.S. LEADERSHIP ROLE IN THE OTHER IMPORTANT PROGRAMS.

GIVEN THE SEVERE AUSTERITY WE FACE, THIS IS NOT A TIME FOR WRINGING OUR HANDS. RATHER, IT PROVIDES US WITH AN OPPORTUNITY TO CONSIDER PROGRAMS IN THE LIGHT OF THESE RESOURCE CONSTRAINTS. THE RESULT IS A REQUEST THAT SEEKS TO DEFINE CLEARLY WHAT CONSTITUTES OUR INTERESTS AND TO DETERMINE HOW WELL THOSE INTERESTS ARE SERVED.

HAVING SET FORTH OUR OVERALL CONCERNS, I WOULD NOW LIKE TO FOCUS ON THE INDIVIDUAL PROGRAMS WITHIN THE ACCOUNT.

THE LARGEST ITEM IN THE ACCOUNT IS A $102.5 MILLION REQUEST FOR THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP). ALTHOUGH IT REMAINS THE LARGEST, THE AMOUNT REPRESENTS THE LOWEST REQUEST FOR UNDP SINCE FY 1977. WHY IS THE REQUEST SO LOW WHEN A CENTRAL AND LONG-STANDING U.S. POLICY HAS BEEN TO STRENGTHEN

THE UNDP AS THE PRIMARY SOURCE OF FUNDING AND OVERALL COORDINATOR FOR TECHNICAL COOPERATION ACTIVITIES CONDUCTED BY UN SYSTEM AGENCIES AND PROGRAMS? THERE ARE TWO REASONS: FIRST, THE REQUESTED LEVEL OF SUPPORT REFLECTS CURRENT FISCAL REALITY AND THE SIZE OF THE UNDP ITEM IN THE ACCOUNT MEANS IT HAS TO BEAR THE BRUNT OF THE CUTS REQUIRED. SECOND, IN THE FACE OF FISCAL REALITY, WE HAVE HAD TO FUND ACTIVITIES WHICH MOST DIRECTLY SERVE U.S. INTERESTS. WHILE UNDP CONTINUES TO BE IMPORTANT, IT TENDS TO SERVE ONLY GENERAL U.S. INTERESTS.

THE SECOND LARGEST ITEM IN OUR REQUEST IS $34.2 MILLION FOR THE UN CHILDREN'S FUND (UNICEF). WE HAVE INCREASED THIS ITEM OVER OUR FY 1986 REQUEST. THIS INCREASE ACKNOWLEDGES THAT UNICEF'S APPROACHES HAVE GENERALLY BEEN CONSISTENT WITH U.S. DEVELOPMENT ASSISTANCE PRIORITIES AND THAT UNICEF COMPLEMENTS AND REINFORCES U.S. BILATERAL ASSISTANCE. THEREFORE, WE BELIEVE UNICEF IS DESERVING OF A LARGER ALLOCATION.

THE THIRD LARGEST ITEM IN OUR REQUEST IS $20.5 MILLION FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA). THIS REQUEST LEVEL IS THE SAME AS IN FY 1986 AND 1985. U.S. INTERESTS IN NUCLEAR NONPROLIFERATION ARE DIRECTLY SERVED BY THE IAEA'S WORLDWIDE SAFEGUARDS PROGRAM. U.S. VOLUNTARY CONTRIBUTIONS TO SAFEGUARDS WILL HELP THE IAEA IMPROVE EXISTING SAFEGUARD

TECHNIQUES. ASSISTANCE TO THE IAEA TECHNICAL COOPERATION PROGRAM WILL BE IN THE FORM OF EQUIPMENT, U.S. EXPERT SERVICES, FELLOWSHIPS AND TRAINING COURSES. OUR ASSISTANCE TO BOTH THE SAFEGUARDS AND TECHNICAL COOPERATION PROGRAMS DIRECTLY STRENGTHENS THE COMMITMENT OF DEVELOPING COUNTRIES TO OUR NONPROLIFERATION GOALS. DIRECT SUPPORT IN THE FORM OF TECHNICAL COOPERATION FOR THOSE COUNTRIES THAT ARE NPT SIGNATORIES IS FUNDED THROUGH THIS ACCOUNT.

U.S. POLICY SEEKS TO PRESERVE AND STRENGTHEN THE EFFECTIVENESS OF THE ORGANIZATION OF AMERICAN STATES AS A FORUM FOR DEALING WITH ISSUES IMPORTANT IN THIS HEMISPHERE. OAS MEMBERS LOOK TO THE UNITED STATES FOR SUPPORT IN WHAT THEY CONSIDER TO BE THEIR PRIMARY CONCERN -- TECHNICAL ASSISTANCE FOR DEVELOPMENT. ALTHOUGH OUR REQUEST OF $13.95 MILLION REPRESENTS A 10 PERCENT DECREASE FROM OUR FY 1986 REQUEST, WE BELIEVE IT DEMONSTRATES THE CONTINUED U.S. COMMITMENT TO THE INTER-AMERICAN SYSTEM AND WILL INFLUENCE THE LEVEL OF SUPPORT WHICH THE U.S. CAN EXPECT FROM OTHER OAS MEMBERS ON ISSUES OF CONCERN TO US INCLUDING RESPECT FOR HUMAN RIGHTS AND PRESERVATION OF AN ENVIRONMENT CONDUCIVE TO FAIR TRADE AND PRIVATE INVESTMENT.

OUR REQUEST FOR $6.8 MILLION FOR THE UN ENVIRONMENT PROGRAM MORE THAN DOUBLES OUR FY 1986 REQUEST. THE INCREASE RECOGNIZES THAT UNEP'S ACTIVITIES PARALLEL U.S. INTERESTS, AND THEREFORE, COMPLEMENT AND AID U.S. ENVIRONMENTAL EFFORTS. THIS DOES NOT MEAN THAT WE ARE WHOLLY SATISFIED WITH OUR RELATIONS WITH UNEP. WE CONTINUE TO HAVE MAJOR PROBLEMS PLACING AMERICANS IN KEY POSITIONS IN THE UNEP SECRETARIAT AND WE ARE WORKING HARD TO IMPROVE THAT SITUATION. BUT WE RECOGNIZE THAT UNEP'S MULTILATERAL PROGRAM PROMOTES COOPERATION IN REGIONAL PROBLEMS, SUCH AS MARINE POLLUTION AND DESERTIFICATION, AND ITS GLOBAL MANDATE ENABLES IT TO ADDRESS ISSUES SUCH AS CARBON DIOXIDE BUILDUP AND OZONE DEPLETION. WE BELIEVE THAT A CONTRIBUTION OF $6.8 MILLION, REPRESENTING ABOUT 24 PERCENT OF THEIR ANTICIPATED INCOME, REAFFIRMS STRONG U.S. SUPPORT FOR UNEP WHILE AT THE SAME TIME CLEARLY INDICATING THAT WE BELIEVE IT IS TIME FOR OTHER NATIONS TO BEGIN CONTRIBUTING A GREATER SHARE TOWARDS UNEP PROGRAMS.

THE REQUEST FOR $2.3 MILLION FOR INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS IS RELATED TO THE U.S. WITHDRAWAL FROM UNESCO. WITH THE U.S. WITHDRAWAL, THE UNITED STATES NO LONGER CONTRIBUTES ITS SHARE OF COSTS FOR SOME SPECIFIC ACTIVITIES SUPPORTED DIRECTLY BY UNESCO WHICH SIGNIFICANTLY BENEFIT U.S. DOMESTIC INTERESTS. THE PROGRAMS PROPOSED FOR FUNDING UNDER THE RUBRIC, INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC), PROTECT THE MORE IMPORTANT, DIRECT BENEFITS TO AMERICAN SCIENTIFIC, EDUCATIONAL, CULTURAL AND BUSINESS COMMUNITIES FORMERLY DERIVED

THROUGH U.S. MEMBERSHIP IN UNESCO. ICSOC WILL FINANCE CONTINUED U.S. PARTICIPATION IN CRITICAL UNESCO ACTIVITIES SUCH AS THE UNIVERSAL COPYRIGHT CONVENTION, THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION AND THE MAN AND THE BIOSPHERE PROGRAM.

- THE WORLD METEOROLOGICAL ORGANIZATION'S VOLUNTARY COOPERATION PROGRAM ENHANCES THE CAPACITY OF DEVELOPING COUNTRIES TO PARTICIPATE IN THE WORLD WEATHER WATCH. THE PARTICIPATION OF THE DEVELOPING COUNTRIES DIRECTLY BENEFITS THE U.S. BECAUSE IT ENABLES THE U.S. TO OBTAIN OTHERWISE UNAVAILABLE DATA THAT IS NECESSARY FOR OUR NATIONAL WEATHER FORECASTING REQUIREMENTS. TO ASSIST IN FUNDING THIS PROGRAM WE ARE SEEKING $2.0 MILLION FOR FY 1987.

THE UNITED NATIONS CAPITAL DEVELOPMENT FUND PROVIDES SEED CAPITAL, ON A GRANT BASIS, FOR SMALL DEVELOPMENT PROJECTS REQUIRING ONLY LOW TO MODERATE LEVEL TECHNOLOGY. BECAUSE OF THEIR SIZE, THESE PROJECTS MIGHT NOT ATTRACT FINANCING BY MULTILATERAL DEVELOPMENT BANKS. OUR REQUEST OF $1.8 MILLION WILL ENABLE THE FUND TO CONTINUE TO ASSIST IN PROJECTS FINANCED JOINTLY WITH BILATERAL AGENCIES AND OTHER MULTILATERAL INSTITUTIONS.

THE UN EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA IS DESIGNED TO PROVIDE STUDENTS FROM SOUTH AFRICA AND NAMIBIA WITH EDUCATION AND TRAINING OPPORTUNITIES DENIED THEM IN THEIR OWN COUNTRIES. THE OBJECTIVE IS TO ENABLE THESE YOUNG PEOPLE TO PLAY A FULL ROLE IN THEIR SOCIETIES AS THEY BECOME INDEPENDENT OR AS MAJORITY RULE IS ACHIEVED AND TO DEMONSTRATE OUR COMMITMENT TO THE PROCESS OF PEACEFUL TRANSITION IN SOUTHERN AFRICA. WE ARE REQUESTING $900 THOUSAND FOR THIS PROGRAM.

ALTHOUGH IT IS NOT A NEW ITEM, THE UN DEVELOPMENT FUND FOR WOMEN, OR UNIFEM, HAS A NEW NAME. FORMERLY NAMED THE UN VOLUNTARY FUND FOR THE DECADE FOR WOMEN, UNIFEM PROVIDES FINANCING FOR THE ACTIVITIES OF THE DECADE AFTER ITS CONCLUSION IN 1985. UNIFEM IS A NOW A SEPARATE, IDENTIFIABLE ENTITY IN AUTONOMOUS ASSOCIATION WITH THE UNDP. OUR CONTRIBUTION OF $450 THOUSAND WILL SUPPLY CRITICAL FINANCIAL SUPPORT TO ENABLE UNIFEM TO INTEGRATE ITSELF INTO THE MAINSTREAM OF DEVELOPMENT ACTIVITIES -- YET MAINTAIN ITS AUTONOMOUS PURPOSE AND IDENTITY. WE ARE WORKING WITH THE FUND TO STRENGTHEN ITS BUDGETARY PRACTICES AND MANAGEMENT TO ASSURE THAT THESE MONIES WILL BE USED EFFECTIVELY.

OUR $300 THOUSAND REQUEST TO HELP FUND THE UN INDUSTRIAL DEVELOPMENT ORGANIZATION INVESTMENT PROMOTION SERVICE OFFICE IN NEW YORK REPRESENTS A 50 PERCENT INCREASE OVER OUR FY 1986 REQUEST. WE HAVE REQUESTED THIS INCREASE BECAUSE PROMOTION OF PRIVATE SECTOR DEVELOPMENT IS A MAJOR U.S. PRIORITY BOTH IN INTERNATIONAL ORGANIZATION AFFAIRS AND IN DEVELOPMENT ASSISTANCE. WE BELIEVE THIS INCREASE IS ESSENTIAL BECAUSE THE CONGRESS TOTALLY ELIMINATED THIS IMPORTANT ACTIVITY FROM THE FY 1986 APPROPRIATION. UNIDO'S INVESTMENT PROMOTION SERVICE REPRESENTS THE CLEAREST RECOGNITION WITHIN THE UN SYSTEM OF THE IMPORTANCE OF PRIVATE INVESTMENT CAPITAL IN THE DEVELOPMENT PROCESS. THE PROGRAM STIMULATES THE PRIVATE SECTOR IN DEVELOPING COUNTRIES WITH A CATALYTIC IMPACT UPON THEIR DOMESTIC ECONOMIES. THE NEW YORK OFFICE PROVIDES A SIGNIFICANT SERVICE TO THE U.S. PRIVATE SECTOR BY PROVIDING INFORMATION ON INVESTMENT OPPORTUNITIES IN DEVELOPING COUNTRIES, WHICH LEADS TO INCREASED MARKETS FOR U.S. GOODS AND SERVICES. IT ALSO DIRECTLY BENEFITS THE U.S. PRIVATE SECTOR BY ASSISTING REPRESENTATIVES FROM DEVELOPING COUNTRIES TO ESTABLISH CONTACTS IN U.S. INDUSTRY. I NOTE THAT ONLY THE UNITED STATES AMONG THE SEVEN COUNTRIES WHO HOST SIMILAR INVESTMENT PROMOTION OFFICES DOES NOT FULLY FUND THOSE ENTITIES. FURTHERMORE, FOLLOWING UNIDO'S CONVERSION TO SPECIALIZED AGENCY STATUS ON JANUARY 1, 1986, WE ARE ANXIOUS TO ENCOURAGE OPPORTUNITIES FOR THE PRIVATE SECTOR TO PARTICIPATE IN UNIDO ACTIVITIES.

IN 1987 THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES) WILL CONTINUE ITS ROLE AS A MAJOR CONTRIBUTOR TO INTERNATIONAL CONSERVATION AND THE PRIMARY INTERNATIONAL MECHANISM GOVERNING INTERNATIONAL TRADE IN WILDLIFE. CITES WILL CONTINUE WORK ON MAJOR PROJECTS SUCH AS THE INVESTIGATION OF LEGAL AND ILLEGAL TRADE IN KEY SPECIES. OUR REQUEST INCLUDES $200 THOUSAND FOR CITES.

ALTHOUGH THE UN VOLUNTARY FUND FOR VICTIMS OF TORTURE IS NOT NEW TO THIS ACCOUNT, THIS IS THE FIRST TIME THAT THE ADMINISTRATION HAS SOUGHT FUNDING FOR IT. THE BOARD OF TRUSTEES EXPECTS 1986 TO BE THE YEAR WHEN THE FUND COMES FULLY OF AGE AND 1987 TO BE THE YEAR WHEN THE FUND EXPANDS ITS ACTIVITIES FROM ITS PRESENT PURELY MEDICAL CONCENTRATION TO INCLUDE SOME SOCIAL SERVICES TO VICTIMS OF TORTURE AND THEIR FAMILIES. A U.S. CONTRIBUTION OF $100 THOUSAND IS REQUESTED FOR THIS WORTHY PROJECT.

MR. CHAIRMAN THAT CONCLUDES MY STATEMENT. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU AND OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

Mr. **Obey**. Thank you.

In your statement, Mr. Keyes, you indicated that we must seek only the minimum essential amounts, given Gramm-Rudman restrictions for this year. That is what the Congress thought we did last year, when we cut the Administration's request for non-essential items by $1.4 billion.

It is very difficult, when you and we are facing Gramm-Rudman restrictions, to really focus on substance as opposed to just getting to the bottom line. That is one of the unfortunate things Gramm-Rudman has done, is leach substance out of the legislative process.

Nonetheless, I would ask you, in arriving at the budget request which you are presenting today, what criteria have you used to measure our self-interests in each of these programs?

Mr. **Keyes**. Well, I think that that is true. It is not only on the legislative side, but I think on the executive side. There is a tendency for the present environment to force everybody's attention, really, to the figures.

We, in fact, have tried to resist that temptation in dealing with this account. In fact, at earlier stages in our thinking, the suggestion was placed before me that we fund one or two programs in it and leave the rest to take care of themselves, I suppose. It seemed to me that was obviously begging some very important questions about what interests we have in these programs and how we judge those interests.

There is not, however, a way to set down in some scientifically objective format the means for distinguishing the interests that we have. We did try, conceptually, to develop a rubric for doing that by distinguishing between those programs that serve specific interests in certain areas.

If you take, as an example, the World Meteorological Organization. I can tell you specific interests, in the way of facilitating weather forecasting, coordinating cooperation with developing countries, that are essential for the U.S. to allow us to predict agricultural crops, this is extremely important directly to understandable interests in the agricultural sector and the commercial sector in the United States.

That is not an interest that I have to think about. I can identify it quite clearly and I know what it is accomplishing.

Those organizations in this account, that seem to us to fall in that rubric, were the ones that we looked at with a view to trying to maintain as much as we could, in the present environment, the necessary levels of our support for them.

This would also be true, for instance, of the International Atomic Energy Agency, where we are talking about an organization that is important to vital interests of the United States in nuclear safeguards and non-proliferation.

WOMEN

Mr. **Obey**. Let me get to some specifics.

How does it directly serve major U.S. foreign policy interests for us to increase funding for the U.N. Decade for Women by $210,000?

Mr. **Keyes**. I think that the request that we have made for the U.N. Decade for Women reflects the success that we recently had in dealing with a women's conference in Nairobi. The truth of the matter is that during the course——

Mr. **Obey**. But in a Gramm-Rudman era, is it really essential for us to increase that budget?

Mr. **Keyes**. Let me explain what that does, because I think one has to look at the program in light of our past record. I think, in some ways, our attitude toward the Decade for Women was adversely affected while the Decade was going on, by the fact that for political reasons we were not able fully to support the final documents at the women's conferences that were the basis for that Decade's activities.

We scored a political success in Nairobi this past summer in achieving a document that we could support. And I think that what we were trying to do here is, in a way, to compensate in recognition for that political success for the reduced level of our participation in the Decade previously.

Here we have a program that, in some sense, for political reasons that were quite valid—from our point of view—had been, to an extent, shortchanged over time. And that means that you are shortchanging people who—relative to others who are also receiving some help in the account—need help.

It seems to us that, in view of that success, it was not politic for us to continue shortchanging the women of the world in this account's request.

UNICEF

Mr. **Obey**. Why is it politic for us to cut probably the most popular program in this area, UNICEF, by almost $12 million?

Mr. **Keyes**. I think I would have to point out that in our request the basis for comparison on UNICEF—in my mind, at least—was the request that we made last year. And our request level for '87 is significantly above the request level that we put forward last year, precisely because I think it is necessary to recognize the importance of the UNICEF program.

In an overall environment of budget constraint, however, I think it is also necessary that the support we give UNICEF be balanced against the need to maintain certain minimal levels of support and leadership in other areas of the account.

Mr. **Obey**. If the Congress had to choose between UNICEF and funding an increase in the Decade for Women, where do you think the votes are going to be?

Mr. **Keyes**. Well, I think I would have a hard time with that choice, if I were a Congressman, because you are really choosing between mothers and their babies. You tell me where to make the choice. I am not sure I know.

Because the kinds of activities that are being undertaken by the fund for women are precisely the kind of activities that will allow those women, in areas having to do with agriculture, having to do with their education and training, to provide a better environment of support for their children, the same aim that is being served by UNICEF.

So what am I supposed to say? What we are trying to do is make hard choices. If I have to choose between supporting mothers in one way and supporting them in another way, at least we are still supporting mothers in both cases.

Mr. **Obey**. I think if the Congress has to choose between funding conferences and funding programs that provide assistance to children, I think that you would find that—well, I will just invite you to watch what happens when this Committee tries to constrain the budget for UNICEF.

Mr. **Keyes**. But Mr. Chairman, I would hope that they would realize that UNIFEM—and I clearly do not want to say that any account here is in any sense perfect—and UNIFEM certainly is not perfect. We are working with them right now to try to assure that their use of funds is going to be in a way that produces results.

But when I say produces results, I do not mean conferences. The kinds of things that UNIFEM is funding are precisely projects and programs in the field for helping to integrate women, particularly in developing countries, into the mainstream of economic activity.

These are not conferences. These are things that are actually having substantive impact on the real lives of real people, teaching them the kind of skills they need on the farm, teaching them the kind of things they need, the background they need to have to deal with financial systems and so forth, because in a large part of the developing world women happen to be important factors in the agricultural and commercial sector.

And UNIFEM is striving to provide them with the kind of training and support they need to play that role.

So we are not talking about conferences. We are talking about the kind of substantive impact that UNICEF also has, in its own area, but that UNIFEM has in a different way, as well.

Mr. **Obey**. I will be very surprised if I find many women lobbying this Committee to increase funding for U.N. Decade for Women at the expense of UNICEF.

IFAD

What about IFAD? OPEC countries have agreed to foot 40 percent of that program for three years. Do we think they are still going to do that, in light of falling oil prices? And if we run into trouble with their contributions, what are our intentions?

Mr. **Keyes**. Well, I think in light of the agreement that has been reached, it is our intention to fund IFAD. It will not be funded, as I understand it, from this account, as it was in the past, but through other elements of our bi-lateral assistance account.

And I think that we intend to live up to our part of the bargain. But the way that mechanism works, we live up to it only to the degree that others live up to it, also. So in the talks that I had with Mr. Jazairy when I was in Rome, he was indicating the sort of relative success or failure that he is having. After talking with our counterparts in IFAD, he seems to be—despite the falling price of oil—hopeful that IFAD is going to achieve its full level of funding. He is trying various ways, including moving some of the countries from a non-contributing to a contributing category, in order to assure that they will be able to meet this level.

Mr. **Obey**. Okay, I have got a couple of questions—because we are squeezed for time—a couple of questions I want to put in the record at this point, on this subject, for you to respond to.

And let me ask you this, does the Administration plan to make any contributions to IFAD's special program for sub-Saharan Africa from the agriculture account?

Mr. **Keyes**. I do not know. We can get that information for you.

[The information follows:]

International Fund for Agricultural Development (IFAD)

Question. Will the recent very steep decline in oil prices and revenues for OPEC countries cause them to fail to meet even this significantly retrenched funding level for IFAD?

Answer. The OPEC nations pledged in January 1986 to provide $184 million (40%) to IFAD's Second Replenishment. The U.S. has received no indications from the OPEC Nations or IFAD that the current decline in oil revenues will affect that pledge. The U.S. expects Category II to honor its committments.

Question. Is the Administration committed to providing $30 million for IFAD irrespective of the level of funding appropriated for agricultural programs—that is, even if appropriations are lower than requested for those programs?

Answer. The Administration intends to fund the FY 87 portion of our IFAD II payment from overall foreign aid request levels. The second tranche of our IFAD II pledge will amount to approximately $24.5 million. It is difficult to predict which accounts will have to be reduced to accomodate IFAD funding in FY 87 until the appropriations levels are known. While we fully intend to meet our commitment to IFAD, the amounts appropriated in FY 87 for AID's functional accounts will determine the trade-offs which will have to be made.

Question. Does the Administration plan to make any contributions to IFAD's Special Program for sub-Saharan Africa from the agriculture account?

Answer. No Current and prospective budget stringencies preclude a U.S. contribution to IFAD's Special Program for Sub-Saharan Africa. We have so informed IFAD's management and other donors.

Question. What impact will this funding reduction have on the agricultural programs?

Answer. The lower level of resources available to IFAD will naturally entail a reduction in the size and number of IFAD loans. The U.S. is confident, however, that even at its reduced resource level, IFAD will continue to make a substantial contribution to small farmer agricultural development. Increased co-financing of projects with other international financial institutions will help to maximize IFAD resources without diminishing IFAD's special emphasis.

Mr. **Obey**. Organization for American States, I am trying to remember what they have gotten more publicity on for the last couple of years, other than their ambassador's endorsement of Mr. Helms in the last election. Has OAS played any significant role in combatting the illicit narcotics trade in the western hemisphere?

Mr. **Keyes**. Well, Mr. Chairman, I think that, in fact, there is a conference coming up that could have an important impact on the subject very shortly. Anticipating some interest——

Mr. **Obey**. Have they done anything in this area, to date?

Mr. **Keyes**. Yes. Anticipating some interest in that, I brought along my colleague, who is our representative to the OAS. And maybe he would like to address that question, if you do not mind.

Mr. **McCormack**. Thank you very much.

As you know, I became the OAS Ambassador last August, at that time, the organization had some serious problems. It had suffered a 20 percent cut in its staff over the last three or four years because of the budgetary freezes, and there was a degree of domoralization. I was sent to the OAS to work to revive and revitalize the organization.

There had been some earlier talk about having the OAS more involved in the drug area. But as a consequence of the decisions taken in the General Assembly meeting at Cartegena, which was an extremely important General Assembly meeting in December, we are going ahead now with a major drug conference at the ministerial level in Rio on the 22nd of this month, and we're hoping that we can accomplish a number of things in this conference.

Mr. OBEY. Let me put it as a two-part question, then.

Has OAS done anything to date to deal with the problem of international drug trafficking in the Western Hemisphere?

Mr. MCCORMACK. I don't believe the OAS has done much to date. But what I'm saying is, we're hoping that it will.

Mr. OBEY. What do you think, in a concrete way, can come out of this conference?

Mr. MCCORMACK. What I hope to happen will be a number of things, one of which is the greater recognition throughout the continent as a whole of the nature of the problem and the need to do something about it.

Secondly, one of the instruments of the OAS that has worked very well has been the Commission on Human Rights, which has pointed the finger at individual countries of the right and of the left that have committed abuses in the human rights area.

I hope the conference is an analogue to that; that we can create a Commission on Drugs with annual reports on what countries are doing or not doing in the area of international narcotics. As you know, the problem is pandemic. When we had our meeting in Columbia this year, were thousands of troops were required to defend our physical security because of the threats from terrorists and drug dealers and other people. It is a problem the perceptions of which have shifted dramatically in Latin America over the last few years.

Previously, they thought it was an American consumption problem and that they were simply supplying a demand that existed here. Now they are beginning to realize the tremendous danger, the hideous danger, that exists to their own societies, their own institutions, and their own children.

So we are beginning to see an important change in attitude down there, and I am hoping very much that this conference will begin to crystalize uniformity of legal practices, tracking down of money that drug dealers have, and seeing if we can't find some way of getting hold of that, and doing a number of other things, including to increase drug awareness programs in the schools. I'm hopeful that this conference is going to be very important in the whole war on drugs, and I'll be happy to come up and report to you after I return on what concretely we have accomplished and to seek your own suggestions and thoughts.

QUESTIONS FOR THE RECORD ON ROLE OF OAS

Question. What is the importance of the role of a regional institution such as OAS within the overall context of US policy toward Latin America?

Answer. The OAS is highly effective in providing a regional forum where US national interests on regional and global issues can receive added attention, understanding, and support. It is the keystone of collective security mechanisms in this hemisphere—the Rio Treaty—and as such has provided us with our framework for regional peace-keeping and collective security efforts.

The OAS is the organization which united all other regional mechanisms, arrangements, conventions and institutions in which the US participates. The existence of the OAS enables the US and other member states to largely keep hemispheric matters within the hemisphere rather than becoming encumbered with extraneous issues and prejudicies in other fora, such as the UN. The US, thus does not participate in another organization whose functions might be perceived to duplicate OAS functions.

OAS programs have a record of effectiveness attested by the increasing participation by non-member donor countries and contracting services provided to other international organizations. Technical assistance programs are timely refocused according to priorities to keep them constantly in tune with member country needs.

Question. What are the objectives of OAS? Where is it concentrating its focus? How does the US benefit from its activities? Has the OAS played a role in combatting illicit narcotics trade in the Western Hemisphere?

Answer. The principal goals of the Organization of American States (OAS), as set forth in Article 6 of its Charter, are to: strengthen peace and security in the hemisphere; prevent possible causes of tensions and ensure peaceful settlement of disputes; provide for common action in the event of aggression; seek the solution of political, juridical and economic problems; and promote, by cooperative action, economic, and social, and cultural development.

The OAS, in particular the Inter-American Human Rights Commission (IAHRC) under its jurisdiction, has assumed an increasing role in the protection and promotion of human rights in the hemisphere. The mandate and acceptance of the IAHRC have been strengthened; the OAS and the IAHRC public positions on human rights have been crucial in mobilizing concern and action to correct violations of human rights in the hemisphere.

Its reports on member countries and Cuba have enabled the media and concerned people everywhere to generate pressures for improvement, thereby strengthening support for democratic ideals and processes.

The OAS decided in April, 1986 to set up an Inter-American Commission on Drug Control which, drawing on the example of the Inter-American Human rights Commission, is designed to mobilize hemispheric support for joint efforts to curb drug abuse, trafficking, and drug-associated crime.

UNEP

Mr. OBEY. All right. UNEP, we've had a wrestling match with you for a long time on UNEP. In 1977, it received $10 million. The purchasing power of that $10 million now in real dollar terms is about $4 to $5 million.

The Administration has requested only $3 million for UNEP for every year except Fiscal '87 where you've got a larger amount.

Does that higher request this year represent a change in the Administration's attitude about UNEP or a concession to Congressional support for it.

Mr. KEYES. Well, I don't think the two things are mutually exclusive.

Mr. OBEY. Well, it's so rare that we see a concession to the latter that I'm wondering whether this is——

[Laughter.]

Mr. KEYES. Well, I would say first that there has been at least a minor change in the personality of the leadership on this question in the government. I tend to be myself, personally, quite sensitive to and am willing to be instructed by what I think are persuasive views on the part of the Congress, and I think that the request level does reflect the result of that interaction over time with Congressional opinion.

I think we have had a basic sense over time of the UN Environmental Program's basic soundness administratively. We have some problems with UNEP, as we do with all organizations, particularly in the area of personnel recruitment where we'd like to see some more Americans in senior positions.

Mr. OBEY. Yes. I wanted to ask you, what efforts are we making in that regard, and how much success are we having in plugging in more Americans to that organization?

Mr. KEYES. Well, I have been in personal contact since the beginning of my tenure with Mr. Tolba in a continuing exchange, talking about the seriousness we attach to this problem. We have proposed specific candidates for one major job that is now open at UNEP and are keeping our eyes open for others, so it's part of an ongoing and systematic effort to both sensitize the leadership in UNEP, as well as make sure we are putting forth qualified candidates for UNEP positions; I hope, that over time, that effort is going to pay off.

I think, if I can explain also the change, part of the figures in this account reflect a willingness, at least on our part to bite the bullet and not to rely on what could have been a tacit expectation that their logic would not be acceptable to the Congress. We have made an effort to take account of that Congressional logic, but that effort, given that this is a zero-sum game, did mean that some other parts of the account clearly had to reflect the need to distribute somewhat more equitably and realistically our support for programs like UNEP in this account.

Mr. OBEY. In November of '84, UNEP convened a World Industrial Conference on Environmental Management in Versailles, cosponsored by the International Chamber of Commerce, instigated by the U.S. Business Roundtable. In '85, CEOs from U.S. Steel, Monsanto, Alcoa, and a number of others established an international bureau to work with UNEP and others in providing technical assistance and expertise to developing countries to head off environmental problems.

Are you aware of those activities?

Mr. KEYES. Yes, I am aware of those activities and have had occasion to discuss them with some elements of the business community who were——

Mr. OBEY. Do you think that is consistent with the Administration's private sector initiatives?

Mr. KEYES. I think they are consistent with our private sector initiatives, and we have been encouraging their continuance, and we have been encouraging the business community to continue to support that initiative, as well as making it clear to UNEP that we thought that this was a direction that was quite a healthy one for the program to go in.

Mr. OBEY. I agree with that. But let me ask, if that's the case and UNEP is able to successfully leverage its operations through this effort with the private sector, why is the Administration proposing a rescission for UNEP funds in '86 below the funding that we agreed to in the conference and below the funding that the President agreed to when he signed the bill?

Mr. KEYES. Well, I would have to say that I would agree with you that it might be best in all of these things to be forward-looking. But I also think that, in fairness to the circumstances in which the original deal was made, some changes have taken place in the world since that time, which have had a serious impact on budgetary considerations.

We are all working, as we have pointed out, in the Gramm-Rudman environment. Gramm-Rudman, as I recall, is a fact of life subsequent to but still affecting the 1986 situation.

Mr. OBEY. Gramm-Rudman does not require you to reduce spending levels below the amounts agreed to by the Congress and agreed to by the President, especially when those spending limits are in compliance with Gramm-Rudman.

Mr. KEYES. I think I am not speaking of its specific provisions. What I am speaking of is the environment of serious concern about budgetary matters that its passage represented.

What I take the rescission to represent——

Mr. OBEY. Now come on. That's gobbledygook.

Mr. KEYES. No. What I take—it is, I think, an unprecedented step, one that has had, I think, rather enormous consequences on the functioning of the Government, and I think it did indicate a rather serious galvanization of the will of this Government with regard to dealing with the problem of the deficit. I don't think that's gobbledygook. I think that indicates that a political sea change took place at some point in the last several months about the seriousness with which both the Congress and the Executive Branch were going to approach the deficit question and the question of keeping those deficits down.

In that environment, it seemed to us that it was at least worth the effort to put the question as to whether that sea change did have an effect on the appropriation levels in this account.

Mr. OBEY. Well, let me tell you how I feel.

Mr. KEYES. If the answer is no, Congress has an opportunity to make that quite clear in the course of the normal process. But I do think that given the change in circumstances, putting the question was warranted.

Mr. OBEY. Let me just say that I think the Administration's action was gratuitous, and the way I interpret it is as simply an effort to get a redistribution of the money with your effort to increase a number of accounts and decrease a number of others to come more into compliance with the original budget request.

And my point is, if we have to make deeper cuts in areas that the Administration desires in order to get the message across that we want decisions once made to stick, then the committee is going to have to do that. I mean, the incentives that you provide this committee when you do something like that are not incentives to cooperate, not incentives to provide for compromise, but incentives to make deeper cuts in programs that the Administration wants and larger increases in programs they don't want to ensure that by the time you do get around with your funny-money games on rescissions that we wind up about where we want to be.

So we're either going to have a deal ahead of time, or we're not. And I don't think it's constructive, but you've got obviously a right to do it if you want.

Let me ask other questions on UNEP for the record at this point. [Information to be furnished follows:]

UNITED NATIONS ENVIRONMENT PROGRAM, UNEP

Question. In 1977, UNEP received $10 million of its $30 million budget from the U.S. Since then, the U.S. has committed to funding one third of UNEP.

The purchasing power of that $10 million is now $4 million, and the Administration has requested only $3 million for UNEP every year except in FY 1987 (6.8 million).

A request of $6.8 million is a first for this Administration, but still well below the $10 million funding level of 1977. Which programs within UNEP will suffer as a result of budget constraints?

Answer. The Executive Branch requested $10 million as a contribution to UNEP's Voluntary Fund from 1977-1981. No Administration has ever committed itself to providing a specified percentage of UNEP's Voluntary Fund. However, our contribution in recent years has ranged from 27% in 1983 to 35% in 1985.

In the past, UNEP has occasionally strayed from its mandate as a catalyzing agency to undertake operational program activities, thereby competing rather than cooperating with other UN agencies. It has not done a good job at placing Americans in its Secretariat. It has also become involved in political matters outside of its mandate, such as the arms race and apartheid. The U.S. has consistently expressed its dissatisfaction with these problems.

More recently, however, UNEP has improved its program concentration and focus, and pushed political issues into the background. While the Administration still has some problems with UNEP's poor record of hiring Americans, we feel that its performance has improved, and are attempting to show this with our increased contribution request for 1987.

The Governing Council (which is now meeting biennially on an experimental basis) approves UNEP's overall program. The Council sets priorities and allots percentages of income to various program areas. In recent years, these priorities have generally been consistent with U.S. views. The Secretariat, headed by the Executive Director, chooses the actual projects which UNEP undertakes. The Executive Director also has discretionary power to adjust the individual budget lines 10% above or below the approved limits. Therefore, within these parameters, it will be largely his decision which programs to curtail due to reduced income.

Question. How can we continue efforts to stem desertification in Africa and the devastating periodic droughts which occur.

Answer. The UN Plan of Action to Combat Desertification, adopted at a 1977 conference convened by UNEP, remains the basic vehicle for coordinated international efforts in this field. A review of the Action Plan at the 1984 UNEP Governing Council concluded that the Plan's initial objectives had been overly ambitious and unfocused and the mechanisms for implementation suffered from inadequate staffing and funding. Although national governments invested large sums of money, desertification trends have not improved. Despite this criticism of UNEP's performance in coordinating implementation of the Action Plan, the U.S. believes UNEP should remain the international focal point for this purpose. In addition, we have called for the UN Secretary General to meet with executive heads of UNEP and other UN institutions to review, clarify (if necessary) and harmonize their mandates and programs regarding drought and desertification.

Within the USG development assistance program, AID has been supporting a variety of efforts to respond to drought and desertification. Drought is considered, in the main, to be a climatic event. Recognizing that drought and nutritional emergencies will continue to arise, AID is supporting establishment of a Famine Early Warning System that will integrate all-source data, particularly concerning the behavior of social systems, to warn of incipient nutritional emergencies. In addition, AID is leading the effort to develop a coordinated U.S. research effort on African climate, particularly on improving long range forecasting capabilities.

Desertification, on the other hand, is mainly the result of overuse of the land by human and livestock populations. Thus, desertification can occur in heavier rainfall years as well as during drought. AID assistance in this area is concentrated in forestry and soil conservation, and provides $25 million a year for on-farm tree planting and regeneration of natural forests and rangelands. Examples of AID's efforts include encouragement of natural resource assessments, policies and plans; implementation of energy programs to promote development and use of appropriate technologies; and research and development programs designed to help meet vital fuelwood and fodder needs.

Question. UNEP has 288 distinct activities going on today. Twenty-six countries have increased their 1986 contribution level to UNEP.

It seems to me that request levels for UNEP are generally so consistently low that it is difficult for the agency to carry out many of these functions in a consistently credible way. We ask that on one hand UN agencies are managed better, and on the other deep them in suspense over rescission requests and the like.

Is there some way we can budget for UNEP in a consistent fashion, at least keeping them in proportion with the other IO&P agencies we say we support?

Answer. The Administration prepares its budget request for UNEP each year based on our perception of that agency's activities for the preceeding year, the same way it does for all of the UN agencies. Generally, the budget requests do not change by a large amount from one year to another unless there is a significant change in the agency.

According to the latest UNEP documents, 30 countries have increased their contributions to UNEP's Voluntary Fund from 1985 to 1986. On paper, this should provide an increase of approximately $2.5 million for UNEP in 1986. However, this increase appears, in many cases, to reflect changing exchange rates rather than increased support. From its high of $32 million in 1979, contributions to the Fund have decreased to $29.5 million in 1984 and $28.5 million in 1985. A general reduction of support around the world, rather than reduced U.S. support has caused this. Therefore, the Administration has suggested that UNEP strengthen both its programs and its fund raising activities to increase its support from other member nations. The Administration believes that the best way for UNEP to guarantee continuing support for its programs is to broaden its financial base, rather than asking the few major contributors for an increase in their contributions.

Question. It is my understanding that the UNEP has been working very hard to set up a Regional Seas Programme in the Caribbean, where all countries can work together to avoid environmental deterioration in that region.

With all of the discussion by the Administration to improve the situation down there, why has the U.S. not contributed to the Caribbean trust account.

Answer. The United States strongly supports the Caribbean Regional Seas Program. We were one of the first countries to adopt the Cartagena Convention for the Protection and Development of the Marine Environment of the Wider Caribbean Region and the associated protocol concerning cooperation in combating oil spills. However, only five other nations have ratified the Convention and its protocol, which require nine ratifications to enter into force.

The Department has estimated that it would cost approximately $700,000 annually for administration of the Convention. This amount, however, would only go towards Secretariat staff salaries and overhead. Supporting projects would require additional contributions. We decided that, until the convention came into force, the United States could more effectively support the Caribbean Program by contributing expert services rather than money. For the past two years the United States has seconded experts for these purposes. This year we are continuing to provide an expert to the Caribbean program. The cost of this U.S. contribution is $60–100,000 per year. In addition, USAID has contributed $770,000 to projects under the Program, and we have pledged to coordinate some of AID's regional environmental activities with the Program in the future. When the Convention comes into force and other nations are also willing to contribute to the Caribbean Trust Fund, the Administration will consider a request for Congressional approval of a U.S. contribution, based on the availability of funds.

UNFVT

Mr. OBEY. And then let me ask you on UN voluntary funds for victims of torture, a very sexy title.

What is that program really doing? What's the purpose of it?

Mr. KEYES. Well, I think that the $100,000 we have asked for that program will be contributing to the efforts that are made through that program to give concrete assistance, and this is assistance in rehabilitation, medical assistance, direct assistance to the victims of torture and to their families, which come out of this relatively small but, in our view, still significant account.

Mr. OBEY. I don't remember when that program first started. Do you?

Mr. KEYES. That program started several years ago. I am not myself sure of the exact date. I think it was about three years ago.

We have not funded it up to this point, but we thought that it was appropriate, since we strongly supported its establishment in the first place.

Recently, as you know, the Torture Convention was passed by the General Assembly, marking the culmination of years of effort in that particular field of endeavor, and we thought this was an appropriate time and way to mark the success of those overall efforts.

Mr. OBEY. I guess my question is simply this. I don't think you'll find anybody around this table cheerleading for torture, obviously, but the program is so small, I think one can legitimately question whether it's worth the minuscule effort that is being provided.

Mr. KEYES. Well, I think that that might depend on which end of the equation one was on. But in political terms, we thought that it was an important step to be taken at this time, since it has been one of the areas where the United States, along with our Western partners in the multilateral arena, have made an important point of pushing for political understanding, political agreements, that will limit torture.

Human rights, as you know, is an area which is extremely important to the United States and to the West in the multilateral arena.

Mr. OBEY. But the Administration had a zero request for it last year. Now this year they are requesting something. I'm trying to figure out why the difference from a zero request last year.

Has something new happened that makes it worthwhile to fund this year, when it wasn't funded last year?

Mr. KEYES. As I pointed out, I think that what new has happened is that, we had the culmination of years of political effort in the passage of the Torture Convention, and this was an opportunity to react, if you will, to that success in a concrete way.

UNICEF

Mr. OBEY. You are proposing to cut UNICEF from '86 Gramm-Rudman levels. Does the Administration have any specific objections to the way in which UNICEF programs have been conducted in the last year?

Mr. KEYES. No, Mr. Chairman. I think that in developing the request that we have made for UNICEF—and I would have to put it also into the same pot as UNDP—we start out in an environment of overall resource constraints where the money overall going into these accounts is markedly reduced due to the need in the President's budget for '87 to stay within budgetary limits.

Within that universe of constraint, faced with the choices that we have within this account, we had two roads to go down. We could fully fund, or at least better approach full funding with respect to past historical levels for UNDP and UNICEF, in which case nothing else in the account gets funded, and we therefore sacrifice the interests and positions that we have in other organizations in order to accomplish that goal. Alternatively, we can try to balance our interests in UNDP and UNICEF with our interests in the rest of the account, as well as maintain a balance between UNDP and UNICEF. This we tried to do, so that the relationship between those two large chunks of the organization is proportionately the same, as it was in last year's appropriation.

So it was really in reaction to that overall environment of constraint that these resource levels are seriously reduced.

A final point that I think is important—we do think that it's necessary to look at these accounts in realistic terms, as I pointed out in my statement. The idea that by cutting in these areas we are somehow pure and simply cutting back on our support for the objectives that these programs are trying to achieve is not necessarily the case. But these programs are, not the only way, and in some areas not the most effective way, to achieve these objectives.

Here, I am thinking particularly of UNDP, but to an extent all multilateral programs in general suffer from certain problems. They have a usefulness—I'm not saying they don't—they can be very good in certain areas, but their usefulness is not unlimited, and our commitment to them has to reflect that balance.

Mr. OBEY. I've got two other questions on UNICEF that I will put in the record at this time.

[Information to be furnished follows:]

UNITED NATIONS CHILDREN'S FUND (UNICEF)

1. UNICEF recently announced a $120 million appeal for continued relief and rehabilitation programs for women and children in Sub-Saharan Africa. Traditionally, the United States contributes about one-third of a special appeal like this. How do you intend to respond?

A. The Department and the Agency for International Development (AID) are currently giving careful consideration to this appeal. Although we of course would hope to be as forthcoming as possible, we must keep in mind the constraints imposed on us all by the Gramm-Rudman-Hollings era. Finally, it is likely that, as in the past, any U.S. response to this appeal will be made under other Chapters of the Foreign Assistance Act and not under the IO&P Account for which I am primarily responsible.

2. I understand that AID and UNICEF have begun a series of regular consultations on Child Survival programs and policies. This would seem to be the kind of coordination or collaboration that will help both agencies mobilize resources. Is this kind of effort widespread? Could collaboration with the voluntaries be improved? If so, how?

B. These consultations were also attended by representatives of the World Health Organization (WHO), the Pan American Health Organization (PAHO), the UN Development Program (UNDP) and the World Bank. Resource mobilization was obviously a theme for discussion. The meetings, however, emphasized the exchange of program information and the search for areas for joint programming. Although not universal, similar coordination efforts are becoming more usual as agencies discover the multiplier effect of collaborative efforts.

Collaboration with the voluntaries can always be improved. However, both AID and UNICEF already work together with and fund projects by private voluntary organizations (PVO). In order to assure better coordination between members of this group, many if not all PVO's active in this field are part of an interorganizational coordinating body called INTERACTION. AID meets regularly with INTERACTION on collaboration in assisting Africa. Finally, a "NGO Forum" is regularly held in conjunction with the annual UNICEF Executive Board meeting and this year, for the first time, the NGO Forum met in plenary with the Executive Board itself. It is through efforts like this that collaboration between UNICEF, the United States Government and PVO's is improving.

UNESCO

Mr. OBEY. Mr. Porter.

Mr. PORTER. Thank you, Mr. Chairman.

Mr. Keyes, I wonder if you could fill us in on what has happened to UNESCO since the U.S. withdrew and whether there has been any progress in our discussions toward rejoining. Have there been any changes that would move UNESCO in the right direction?

Mr. KEYES. Well, I think two things. The Reform Observation Panel, which considered this question subsequent to the Sofia meeting in the fall, came to the conclusion that as a result of that meeting there had not been any sufficient progress to justify a reconsideration of our decision.

I think that the British Government, in assessing the Sofia results, came to a conclusion which led them to act on their notification of withdrawal.

I recently attended in Geneva a meeting of what is called the Geneva Group, which is a group of major donor countries to various agencies of the multilateral system. The impression that I came away with was that not only we, but all the countries involved there, are impressed with the serious continuing problems in the organization, and that there have not been the kind of changes that would justify at this point even starting a reconsideration of our decision to withdraw. In fact, in some areas the situation has deteriorated.

This does not mean, of course, that we are not going to continue to both closely observe and, where appropriate, consult with those who continue to be part of the organization, so that we can stay on top of and hopefully influence in a positive way the trends that do exist in the direction of reform.

Mr. PORTER. Have any other countries also withdrawn?

Mr. KEYES. I think the three that have so far withdrawn are ourselves, the British, and Singapore.

Mr. PORTER. You said there has been even some deterioration since our withdrawal in their attitudes; what areas are those?

Mr. KEYES. I think the things that I came away noticing were continuing concerns about the deterioration of morale, the way in which personnel questions are handled. There were some ideas that were adopted in Sofia with a view to improving that situation, but it appears that at this point the implementation and follow-up on the Sofia proposals have not been very satisfactory. There was some sense that a more effective leadership in the organization was needed in order to achieve appropriate implementation, even of the reforms, limited reforms, if I may say so, that have thus far been adopted.

We have also seen some signs that have been a little bit disturbing, that some of the things like the New World Information Order or aspects of it, that have been put on the shelf when major pressure was being put on the organization, may be dusted off and taken off the shelf to some degree again. This suggests a fundamental change in attitude, whether it is in the management area or in the political area, has really not begun to occur.

IFAD

Mr. PORTER. Secretary, OECD and OPEC recently concluded an agreement on the second replenishment for IFAD. I understand that is at $500 million when the first agreement was at $1 billion. While that is understandable, how is that going to affect IFAD's operations?

Mr. **Keyes**. I think clearly it means that IFAD's operations are going to have to take place at a level that reflects the existing realities. This is an organization that was premised on taking special advantage of the circumstances of the 1970's, the oil windfall in particular. Those circumstances have clearly changed to a degree.

In the negotiations on the replenishment, I think there was a lot of back and forth and the need to take account of those changing circumstances.

My impression is, however, that the leadership in IFAD does feel that it has an important mission. We tend to think that some of the approaches that it takes in the agricultural area provide an unique contribution to the agriculture development.

They do continue to have a role, even though in the present environment of resource constraints, particularly resulting from the oil price fall, they are going to have to be more efficient in their efforts.

My impression of the leadership there, however, is they are determined to try to do more with less, and to encourage participation, as I was pointing out a few minutes ago to the Chairman, on the part of some of the countries that are not now in the contributing category, IFAD will be making a major effort to go to some of those, medium sized, medium strength developing countries, to see whether they would be willing to take on a contributing role and therefore increase the overall resource base.

IOP ACCOUNT

Mr. **Porter**. You were discussing a minute ago with the Chairman the fact that your areas, the international organizations and programs, have received under the budget request a very substantial drop in funding. If I read this right, from $277 pre-sequester, to $186, while the overall budget is going up.

What have you done within the Department to advance your cause a little more? It seems to me that is an inordinately large hit, particularly with some of the good programs like UNICEF, which the Chairman mentioned a moment ago. What have been your own feelings? I understand priorities and all that. The whole budget is going up. This money is going somewhere else under this budget proposal.

Mr. **Keyes**. I think that in the present environment, the choices that are faced by the President are very difficult ones. It is my sense that the overall budget submission of the President reflects an attempt in this very difficult environment to establish a relationship among competing domestic as well as foreign priorities, security as well as economic priorities, that achieves a balance that is favorable to our interests.

I think that the outcome is therefore one that is in the best interest of the United States, and I would certainly hope that the overall budget submission would be viewed by the Congress in that light.

It is very true that in the course of time, there are periods of give and take in the preparation of the budget submission. I do not think it would be appropriate for me to comment on the role I played in that give and take, since it is the result that represents the viewpoint of the President and the Administration. I think that clearly on the basis of the choices we have made within the account, we feel we can more than adequately serve U.S. interests in light of the President's decisions.

UNIDO

Mr. PORTER. The investment promotion service of UNIDO seems to have some of the same functions as our bilateral trade development program. Is this so? If so, are you helping the organizations to work together in any kind of a formal way?

Mr. KEYES. In fact, I believe there was a formal connection and AID provided part of the funding for the UNIDO Investment Promotion Office in New York. I think in the present environment, AID may be having to cut back on that support. Yet there has been cooperation between the bilateral and the multilateral side in this particular area.

Our request reflects what I always thought was kind of an anomaly, and I must confess, if I may speak frankly, I was a little taken aback by the congressional reaction to this particular office, at least from our point of view. We spend a lot of time trying to encourage the various organizations of the U.N. system to do the right thing. The right thing in the development area is to move away from the approaches that are less effective and that encourage a lot of government domination and move toward approaches that emphasize the private sector, that emphasize export growth, that emphasize the kind of formulas for development that seem to have been most effective in some of the developing countries that we normally cite in East Asia and elsewhere.

We have talked to UNIDO about this. We are even in the process now of talking to Mr. Saizon, who is the head of UNIDO and trying to get him to refocus his efforts. I think we are meeting in various areas of the U.N. system with some response. Yet, in an area like this, the Investment Promotion Office, already existed. It was completely in line with that approach and philosophy, and yet we have had trouble getting funding for it.

I would have to argue that in making choices relative to other programs in the account, we should want to encourage those parts of the system that appear to be responding in the right direction rather than in an indiscriminate way just to give money to programs in general on the basis of their general reputation or something, when they might not, when you look at them closely, be actually encouraging that kind of an approach.

We think that the request that we have made for the Investment Promotion Office is one that we hope will be taken quite seriously. It is one of those programs that sends the right kind of message about how development can best be achieved.

ACCOUNT PRIORITIES

Mr. PORTER. Recognizing that UNICEF has one of the largest constituencies of any of the U.N. programs, and recognizing that Congress is very likely to shift your priorities a bit in the budget, are you willing to tell us areas where we might find lower priorities in order to increase an account like that one?

Mr. **Keyes**. Lower priorities within this account?

Mr. **Porter**. In the budget.

Mr. **Keyes**. I must confess, as I was trying to point out a minute ago, it is not entirely clear to me one, that is my role, or two, that it is appropriate. I do think I could make one or two comments. At the moment I am responsible for this account and doing my best with the choices that I face within it.

If I were sitting in your chair today, a Congressman faced with choices, or if I were sitting in the President's chair and responsible for the entire budget, I would have to think long and hard about these multilateral program accounts. I would have to think about them long and hard in a realistic basis. If you have a commitment to development and you say, well, the U.N. Development Program may be the best way to express that commitment, it could be, and then again, maybe not.

That is why I was pointing out before that these are not programs of unlimited value. In specific areas, if you want to cite the advantages of a multilateral program like UNDP, then some assistance gets to places that we would not otherwise be able to influence but we are showing our commitment to international cooperation.

Relatively speaking, UNDP has been well administered. When you get down to cases and you establish the criteria for development, in terms of encouraging a certain kind of role for government that is not dominating but supportive, in terms of encouraging an emphasis on private sector involvement and private initiative, in terms of encouraging development in the agricultural sector that is also going to be oriented toward the encouragement of individual initiative and private sector growth the multilateral programs that work primarily through government, and if I may use the word, the bureaucracies, and concentrate to a degree on institution building for development, may not be the best way to effect those results directly.

According to my briefing materials, I am supposed to talk about institution building for development. I don't agree. That to me means bureaucracy. That doesn't necessarily mean development. I could be wrong, over simplifying it to say that means bureaucracy. If you look at it closely, I would be willing to wager that a lot of it does mean that the institutions that you are building are government institutions and the kind of approaches you are encouraging are not approaches we would necessarily be comfortable with.

That is not a criticism of the way UNDP is run or anything like that. It is making a statement about the fact that because of its structure, it is going incline the development process in a certain direction: planning and increasing the governmental role. There are ways to correct that. We are working with UNDP to do so. An awareness of the fact that there is this kind of structural aspect leads one to look at that figure and say, in these times, in reference to all of the other interests we have to serve, including bilateral assistance efforts that may be more directly promoting some of the development approaches that we think are more effective, I would be willing to defend that level in detail.

Mr. **Porter**. Thank you for an answer that is far better than that given by Cap Weinberger when asked a similar question. Thank you, Mr. Chairman.

Mr. **Keyes**. I only had to deal with the easy side of it.

[Laughter.]

UNIDO

Mr. **Obey**. Just two observations, on UNIDO, this Committee provided $166,000 last year. The Senate Committee provided none. We acquiesced to what the Senate desired.

In your reference to institution building and the appropriateness of supporting government mechanisms, I think I would agree with you that in certain parts of the world, I would certainly agree we have had too heavy a reliance upon governmental public sector approaches in most places, in Africa, for instance. I would certainly dissent from that view as it applies to places like Central or Latin America, where if anything, the problems that we have are exacerbated by the fact that governmental institutions are far weaker than the economic power of economic elites who stand in the way of any reform whatsoever in a society that would make it viable either economically or from the standpoint of promoting democratic institutions.

Thank you for your time. I have other questions but I do not have more time. We appreciate your being here today, gentlemen.

Mr. **Keyes**. Thank you.

FRIDAY, APRIL 18, 1986.

PEACEKEEPING OPERATIONS

WITNESSES

WENDY CHAMBERLIN, ACTING DIRECTOR, REGIONAL AFFAIRS DIRECTORATE, BUREAU OF NEAR EAST AND SOUTH ASIA AFFAIRS, DEPARTMENT OF STATE

ALEXANDER T. LIEBOWITZ, OFFICER-IN-CHARGE, EUROPEAN, ARMS CONTROL, OUTER SPACE & OCEAN AFFAIRS, BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, DEPARTMENT OF STATE

Mr. OBEY. Next we will be dealing with Peacekeeping Operations. We have the fiscal year 1987, $39 million request for Peacekeeping Operations, a $6.5 million increase over the sequestration, Gramm-Rudman 1986 level. We have with us Mr. Al Liebowitz who is currently Officer-in-Charge in Europe, Arms Control and Outer Space. Couldn't they expand that somewhat?

Mr. LIEBOWITZ. That is just for one bureau.

Mr. OBEY. Bureau of International Organization Affairs, in the Department of State. And Wendy Chamberlin, Acting Director, Regional Affairs, Bureau of Near East and South Asia Affairs.

Again, the way the schedule is developing in another subcommittee, I am afraid this is the operation that is going to be cut short in terms of our hearing this morning. So, if you could just insert your written statement in the record, and make whatever other statement you want to make, I will try to ask as many questions as I can between now and 11:00 a.m. and put the rest in the record and ask you to expand for the record.

Ms. CHAMBERLIN. Thank you. I will make very brief remarks, given the limit on time.

I first would like to, before testifying on the MFO, like to testify on the value of being a volunteer. Since I am a returned volunteer myself, I can tell you it is a fabulous way to begin a career.

Mr. OBEY. Where were you?

Ms. CHAMBERLIN. I was actually not in the Peace Corps. I was in the International Voluntary Service in Laos in the early seventies, but it really is a very valuable experience—particularly if you are pursuing a career in foreign service, as I am.

Mr. Chairman, we appreciate the support that we have received from Congress for U.S. contributions to the Multinational Force and Observers (MFO), an international peacekeeping force which monitors the security arrangements of the Egyptian-Israeli Peace Treaty.

The MFO was established in 1981 when it became apparent the United Nations would not be able to participate as envisioned by the Peace Treaty. Israel and Egypt signed the protocol establishing the Force in August 1981 and Congress approved U.S. participation in December 1981. U.S. participation in, and financial contribution to, the MFO are authorized by Public Law 97-132.

The MFO continues to play a key role in the maintenance of the peaceful situation between Israel and Egypt. Both countries remain firmly committed to the treaty—so far the only peace treaty between Israel and an Arab partner.

I would just like to say very briefly, the MFO is unique among peacekeeping organizations because its beneficiaries provide the bulk of its operating expenses. Egypt and Israel each contribute one third and the United States contributes the other third.

I think I will stop here and open up for questions.

[The statement of Ms. Wendy Chamberlin follows:]

STATEMENT BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS OF THE HOUSE COMMITTEE ON APPROPRIATONS

BY WENDY CHAMBERLIN, ACTING DIRECTOR
REGIONAL AFFAIRS DIRECTORATE
NEAR EASTERN AND SOUTH ASIAN AFFAIRS BUREAU
DEPARTMENT OF STATE

March 20, 1986

Mr. Chairman, Members of the the Committee, we appreciate the support we have received from Congress for U.S. contributions to the Multinational Force and Observers (MFO), an international peacekeeping force which monitors the security arrangements of the Egyptian-Israeli Peace Treaty. The MFO was established in 1981 when it became apparent the United Nations would not be able to participate as envisioned by the Peace Treaty. Israel and Egypt signed the protocol establishing the Force in August 1981 and Congress approved U.S. participation in December 1981. U.S. participation in, and financial contribution to, the MFO are authorized by Public Law 97-132.

The MFO continues to play a key role in the maintenance of the peaceful situation between Israel and Egypt. Both countries remain firmly committed to the treaty -- so far the only peace treaty between Israel and an Arab partner -- and support the valuable work of the MFO. The organization functions as a crucial confidence building element in that it provides a neutral presence and verification mechanism. The civilian observers monitor compliance with the limited-force provisions of the treaty throughout the Sinai and in a narrow strip of Israel adjacent to the border with Egypt. The ten-nation force which comprises the military component of the MFO maintains checkpoints and observation posts and conducts patrols in a portion of the Sinai which runs along the international border from the Mediterranean Sea in the north to Sharm el-Sheikh in the south.

The MFO is unique among peacekeeping organizations because its beneficiaries provide the bulk of its operating expenses. Israel and Egypt each contribute one third of MFO costs while the United States provides the final one third. In addition, we send almost 1200 of the approximately 2600 troops in the force. The MFO reimburses the U.S. for expenses of our troops over and above those costs that would have been incurred if the troops had been assigned in the U.S. The MFO also pays for supplies and equipment that it obtains from us.

The MFO has done a remarkable job over the last three years in holding down expenses. By exercising stringent cost controls and with the aid of lower inflation rates, operating expenses in fiscal years 83, 84 and 85 were $89.7, $77.1 and $85.8 million respectively.

MFO policy is to use tight management procedures rather than the budget as the primary mechanism for controlling expenses. This approach avoids a year-end spending spree. Rather than merely increasing year-end expenditures to justify a large budget, the MFO strictly controls expenditures thereby creating a budget surplus which it uses to reduce its funding request in the next fiscal year. In FY 86 for example, Israel, Egypt and the U.S. were each assessed $30 million for a total budget of $90 million. After about $20 million in total interest income and carryovers from FY 1985 were used to offset obligations for the three donors, the actual monies each government transferred to the MFO amounted to only $23.3 million.

At the same time, at our urging, the MFO has been reducing its budget estimates to take into account lower rates of inflation and its greater experience with what it costs to do its job. Budgets for the first few years of operation were principally engineering estimates for a unique undertaking, including construction and start-up costs, rather than projections based on operating expenses. The result were budgets which were considerably higher than actual expenditures. Beginning with FY 1986, however, the MFO based its budget on empirical data as adjusted for anticipated changes in wages and prices. For this reason, we anticipate FY-87 budget level and actual expenses will be much more in line.

The organization has set the same budget level in FY 1987 as the previous year, with the U.S. Government share remaining at $30 million. The MFO anticipates wage and price increases for supplies, materials and services in the five to seven percent range. The need to start replacing old, outworn equipment in FY 1986 introduces an additional expense for FY87. However, certain other FY 1986 costs, principally associated with a change in the countries participating in the MFO, are not expected to recur in FY 1987 which will allow overall assessements to remain about the same as last year.

The MFO has been and must continue to be conscious of sound management procedures. The organization pays its bills on time -- a factor that has encouraged various countries to join, or to continue to participate in, the MFO. Because the MFO is not a UN organization it does not have ready access to credit. Consequently it must receive contributions on a timely basis in order to meet obligations; and must plan its budget wisely in the beginning of the fiscal year to meet all contingencies. Importantly, it has been able to function in a fiscally responsible manner because it has been able to rely on Israel, Egypt, and the U.S. to meet fully their annual contribution obligations of one third the operating costs each.

Mr. LIEBOWITZ. I submitted a statement for the record. I would only say that since then—this is about Cyprus, the U.N. force in Cyprus—since then the Secretary General of the U.N. has presented his framework agreement to both sides of the Cyprus situation and they are expected to respond soon. The United States at all levels has expressed its support for the Secretary General's initiative. We hope that it will provide a framework for continuing negotiations and of course in the meantime we think the UNFICYP force is valuable to keep the peace.

[The statement of Alexander T. Liebowitz follows:]

STATEMENT BY

MR. ALEXANDER T. LIEBOWITZ

BEFORE THE FOREIGN OPERATIONS SUBCOMMITTEE

COMMITTEE ON APPROPRIATIONS

U.S. HOUSE OF REPRESENTATIVES

MARCH 20, 1986

UNFICYP

Mr. Chairman, it gives me great pleasure to appear before this Subcommittee to speak on behalf of the request for funds for the U.S. contribution to support the UN Force in Cyprus (UNFICYP). The Administration is requesting $9 million for FY 87, the same amount requested in the past. In FY 86, however, our contribution will be cut to $8.613 million, as a result of Gramm-Rudman-Hollings sequestering.

As members are aware, UNFICYP has helped since 1964 to preserve the peace in Cyprus while the Greek and Turkish Cypriot communities searched for a permanent, mutually acceptable settlement. UNFICYP thus facilitates the UN Secretary General's current mission, supported by the U.S., to achieve a negotiated settlement in Cyprus. Under his good-offices mandate from the UN Security Council, Secretary General Perez de Cuellar launched an initiative in 1984 to achieve a Cyprus settlement. Over the last year the SYG has continued his efforts to bring about agreement on a framework for a settlement. Delays were caused by elections in the Turkish Cypriot sector of north Cyprus and in the Republic of Cyprus. Working-level talks between UN officials and Greek and Turkish-Cypriots were held in November and late February-early

March. UN officials believe that the progress registered there could eventually lead to conclusion of a framework agreement for Cyprus.

In the meantime UNFICYP is continuing its peacekeeping activities. Its mandate is renewed every six months by the UN Security Council, most recently on December 12, 1985. UNFICYP, which currently has 2,328 troops, costs about $100.8 million a year. About $72.6 million was financed in 1985 by the eight countries that contribute troops and military police (Austria, Australia, Canada, Denmark, Finland, Ireland, Sweden, and the UK). Voluntary contributions -- including an annual U.S. contribution of $9 million -- are supposed to cover the balance of about $28.2 million. I might note here that this USG pledge of $9 million represents 31.9% of the $28.2 million balance; USG pledges over the years represent about 47% of total pledges. In recent years contributions have not increased to meet rising costs. As of December 15, 1985 there was an accumulated deficit of about $133.9 million. As a result, the claims of the troop-contributing countries had been met only through June 1978.

The Secretary General has regularly expressed his concern over the precarious financial situation of UNFICYP, which places a great burden on the troop-contributing countries and other major donors (Belgium, Federal Republic of Germany, Italy, Japan, Norway and Switzerland). The U.S. has urged others to make contributions to meet the shortfall. Until conditions on the island reach a degree of stability that will permit dissolution of the force, the continued presence of UNFICYP serves U.S. interests in Cyprus and in the region.

Mr. **Obey**. Thank you.

MFO FUNDING LEVELS

Let me ask on the MFO, are you confident that you will need $30 million in '87?

Ms. **Chamberlin**. Yes, sir.

Mr. **Obey**. How much was obligated in 1985 and what is the estimate for 1986?

Ms. **Chamberlin**. In 1985, the actual obligation was $23 million, sir. In 1986, we requested $30 million. The MFO originally requested $33 million, but they reduced that to $30 million, reduced by $3 million from the previous year. We have put out a letter of credit so far for $23.3 million. We think that we may come very close to that, but, of course, we will not know until the end of fiscal year '86 what that will be. For fiscal year '87, MFO has again projected a budget of $90 million with a $30 million U.S. contribution.

We believe in fiscal year '87 they will come very close to that, sir, because they are gaining budget experience and beginning to base the budget the last couple of years on data rather than estimates. It is a new organization so budgets in the first few years were based on projections. Now they are drawing on actual experience and the budget reflects actual expenditures.

We understand this is a concern that Congress has had. It has been our concern too. We have urged the MFO to try to come up with more realistic budget figures and we have confidence that they will.

AIR TRANSPORT SAFETY

Mr. **Obey**. On December 12, as you know, a chartered jet liner crashed in Gander, Newfoundland with a lot of Americans being killed, including one from my hometown. What is the story these days, what is our policy? Are we still using charter civilian aircraft to transport your people? What do other nations use to transport their forces?

Ms. **Chamberlin**. The MFO—the Army has requested that we transport our military contingent to the MFO on U.S. Military Airlift Command (MAC) flights. The MFO will reimburse the Army for the cost up to the point, the cost that it would cost MFO to charter a civilian flight.

As you know, the Army has been investigating Arrow Air and its whole charter procedures quite a bit. I think they have completed now the testimony on the Hill. It is a concern to both of us.

Now, the MFO is responsible for chartering the civilian charters to bring the forces from other military contingents to the MFO and they continue to use charter airlines. It is only our contingent that is going to be brought in by MAC.

Mr. **Obey**. So all of yours from now on will be brought in by the military?

Ms. **Chamberlin**. This is a decision that the Army will be making. It is my understanding that that is their intention for the time being, sir.

Mr. **Obey**. I have a couple of other questions on that point for the record.

U.S. FUNDING FOR CYPRUS FORCE

Cyprus, the Cyprus peacekeeping force has an overall $122 million deficit because participating countries have not paid their contributions.

Mr. Liebowitz. It is not participating countries. The Cyprus peacekeeping force is funded by voluntary contributions in addition to the expenses borne by the troop contributing countries, so the deficit is a result of the fact that either countries haven't contributed funds or troops.

Mr. Obey. What are we going to do about that?

Mr. Liebowitz. Well, we have urged countries to give more. We continue to give or to request $9 million. In fiscal year 1986, because of Gramm-Rudman, our contribution will be slightly less.

Mr. Obey. From which countries have you seen that contribution decline?

Mr. Liebowitz. I haven't seen a year-by-year projection of that to see whether there have been declines or not. I suppose I could get those figures for you.

Mr. Obey. Frankly, I am not interested in seeing us continue to pay those costs if other countries haven't been paying their costs. I don't see why we ought to be stuck with the tab or why there ought to be a deficit.

Mr. Liebowitz. Well, the troop contributing countries, of course, make a substantial contribution through their forces there and through the cost that they absorb.

Mr. Obey. If the rest of the world doesn't see any need to participate, why should we be left holding the bag, or what are we going to do besides punt?

Mr. Liebowitz. Well, I think in this one we can obviously urge others to make more contribution.

Mr. Obey. What if we pulled the plug on our contribution, what would happen?

Mr. Liebowitz. I think the deficit would just go up and the troop contributors as it is would bear the additional costs.

Mr. Obey. Do you think that might get them together, or might create added pressure for them?

Mr. Liebowitz. The Cypriots, to resolve their differences, you mean?

Mr. Obey. Yes.

Mr. Liebowitz. I would doubt it. Oviously it is a speculation. I don't see that that is really something driving them one way or the other.

Mr. Obey. I don't either.

But I return to my original question. Somebody says to me: Obey, what are you doing? Your committee is continuing to fund this and other countries are sitting back and playing tiddly-winks.

Mr. Liebowitz. Well, many other countries do make significant contributions. Countries that have an interest in stability in this part of the world and a number of our Western European allies, so I don't think it is fair to say that no other countries are making contributions.

Mr. OBEY. I didn't say no other countries are making contributions. But if there is a deficit, it means somebody isn't doing what they are expected to do.

Mr. LIEBOWITZ. Well, as I said, it is voluntary. They are voluntary contributions. It is not like a fixed scale of contributions, as we have in some of the other peacekeeping operations. Obviously I could argue everyone ought to be paying more.

Mr. OBEY. What bugs me is this: We spend about $185 billion a year in our own defense budget for activities, weapons, items, personnel that are supposed to help provide a deterrent force in Europe. I think our European allies, to be kind about it, are bugging out on their financial responsibilities.

And when you get people like Sam Nunn who are getting as sore as he is about what we are expected to carry by way of our share, he is not exactly a limp-wristed dove, and when you get that, when you have that pattern develop, when you can see all kinds of areas where it seems to be reflected, including this one, I have got an obligation to ask: Why shouldn't we change our own practice?

Mr. LIEBOWITZ. Well, I don't want to get into the issue of how much our European allies are spending on defense.

Mr. OBEY. But it is indicative of their general desire to have us carry as much of the burden as possible while they are then free to put their resources into modernizing their economies, to compete with us like crazy.

Mr. LIEBOWITZ. Well, I am just looking in the report. I don't think this reflects pledges, and this is for the second half of 1964 and—1984 rather—and first half of 1985, and we get the Federal Republic of Germany contributed about $800,000; Japan about $400,000; Norway about $600,000, U.K., over $2 million. We can argue that, I suppose that maybe they ought to give more. I don't know how one could make a determination like that. I do want to point out it is not that nobody else is giving anything.

Mr. OBEY. My point is if there is a gap in paying these expenses of operations, what do we do besides wring our hands? Somebody needs to move.

I have got to get over to the other subcommittee. I have a number of other questions I will just put in the record for you, and we will appreciate your responses. I apologize to the folks waiting in line to testify, but I have to go over there. I will be back as quickly as I can.

Questions for the Record

PEACEKEEPING OPERATIONS

CHARTERED CIVILIAN PLANES

On December 12, 1985, a charter Arrow Air Jetliner crashed at the Gander, Newfoundland airport killing all 248 soldiers returning from an assignment with Multinational Force and Observers in the Sinai.

Question. Is the United States still using chartered civilian airliners to transport its MFO contingents?

Answer. Following the tragic crash at Gander it was decided that future US Infantry Battalion Taskforces rotating to the MFO will be transported by the US Military Airlift Command (MAC). The troop rotation which began on May 20, 1986 is using miltiary C-141 and C-130 aircraft and it is expected that the following rotation will also use military aircraft. The Army has not, however, ruled out the possibility of using MAC chartered civilian aircraft at some point should that become necessary due to fiscal, or other, constraints. US troops traveling to the MFO on an individual basis will continue to be moved on US flag airline scheduled flights.

Question. What do other MFO nations use for transporting their troops?

Answer. For other MFO contingents large troop movements are via chartered aircraft and smaller groups and individuals are generally moved via scheduled airlines, although there is some use of military aircraft.

Question. What steps are being taken to promote increased coordination among State, MFO headquarters, FAA and DOD to ensure the air-worthiness and safety of the planes used to transport MFO contingents?

Answer. The MFO, through State has requested assistance from both the FAA and DOD in conducting pre-award surveys of prospective charter carriers. The FAA has informally agreed to cooperate with the MFO on the same basis as MAC in providing information on charter carriers. Although, due to increased workload, MAC is not able to make personnel available to assist MFO teams in a conduct pre-award surveys of prospective charter carriers, it has agreed to provide pre-award surveys of CRAF air carriers conducted by MAC insepction teams. MAC also indicated that it would be prepared to arrange airlift for MFO rotations thereby eliminating the added pre-award survey requirement. The MFO is considering the MAC offer.

FRIDAY, APRIL 18, 1986.

MIGRATION AND REFUGEE ASSISTANCE

WITNESS

JAMES N. PURCELL, DIRECTOR, BUREAU FOR REFUGEE PROGRAMS, DEPARTMENT OF STATE

Mr. OBEY. Yes, I apologize for the delay. The least I can do after keeping you waiting is give you everything you want with no questions asked.

We will now turn to the migration and refugee assistance program. Last year $337 million was requested. Following Gramm-Rudman, $324 million was made available, a cut of $13.5 million. Additionally, there is a request for $25 million for the U.S. emergency migration refugee assistance fund. The subcommittee provided $25 million to this fund in an emergency supplemental for Africa.

Mr. James N. Purcell, Director of the Bureau of Refugee Programs, is here to testify. Why don't you proceed?

SUMMARY OF REFUGEE REQUEST

Mr. PURCELL. Thank you, sir. I have a formal statement I will submit for the record.

Our request for 1987 is $347.5 million, and our regular appropriation is $25 million in the emergency fund. The world refugee situation, after a period of some calm in 1984, has worsened substantially since that period. The primary reason is drought, civil strife in Africa, Vietnamese attacks on Vietnamese and Cambodians, continuing hostilities in the Middle East.

This past year national organizations with which we work did a substantial job in dealing with crises that faced a financial pinch. The U.S. continued to carry the lead in responding to needs, but it is clear the needs are advancing far in excess of our ability to fund them.

For example, in 1985, our Bureau received a regular appropriation of $325.5 million plus about $25 million in supplementals, $350.5 million in our regular program, which we augmented by using $40 million of our Emergency Fund in Africa, Southeast Asia and the Middle East. That resulted in a total of $390 million in 1985.

In 1984, we have $324 million after Gramm-Rudman. Almost 25 percent of that amount is earmarked by legislation, in some cases, increasing amounts above our request. For the remainder, our cuts, therefore, exceeded the 4.3 percent.

We are continuing to review the refugee situation. It is getting worse. We estimate, a refugee population of nine million. It is growing, and we continue to face problems of refugees fleeing from conflict in Africa at a time of drought. I found it would be necessary, in keeping with the remarks you made this morning about resources declining, to prioritize a lot, and I plan to do that in 1986.

It seems to me with issues I am faced with, refugees facing life and death, I have got to start making some decisions about programs to keep people alive versus programs to bring them to the United States. The most expensive program we undertake is refugee admissions to the United States. Given the limitations on resources in 1986, I am looking at all our priorities.

I will soon be proposing for this committee and others in Congress a reprogramming to take money away from our more expensive programs to use them in Africa and Southeast Asia where tens of thousands of lives are at risk. I still have $18 million left in the emergency fund. Considering what is going on in Africa, I suspect those funds will be used this fiscal year, making us replenish that fund.

$347.5 million will support admissions of 63,000 refugees to the United States and continue U.S. contributions to appropriate international organizations at levels we seek commensurate with need. The 63,000 admissions will include 42,000 from East Asia, 9,000 from Eastern Europe, 6,000 from the Middle East, 6,000 each from Africa and Latin America. We will continue to have as our major priority programs that need to address life preservation needs, and that will be my major objective over the coming year.

And depending on whatever level of funding we receive, we will attempt to channel as much of our money to help as many people as we can. The needs are growing rapidly. Money in 1986, with those reductions, is not commensurate to our needs, but like everybody else, we will use those monies to do as much good as we can.

I am going to stop there since we are limited for time, as you requested, sir.

[The statement of James N. Purcell follows:]

STATEMENT OF

JAMES N. PURCELL, Jr., DIRECTOR

BUREAU FOR REFUGEE PROGRAMS,

DEPARTMENT OF STATE

BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS

OF THE COMMITTEE ON APPROPRIATIONS

OF THE HOUSE OF REPRESENTATIVES

MARCH 20, 1986

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Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the Department of State's Migration and Refugee Assistance appropriation request for FY 1987. Accompanying me are Robert L. Funseth, Senior Deputy Assistant Secretary of the Bureau for Refugee Programs, and Rozanne Oliver, Director of the Office of Program Budget.

Mr. Chairman, the world refugee situation today continues to be one of great need. Although the news media have not focused recently on any dramatic new refugee crisis, the number of refugees who have fled strife and persecution in their home countries totals over eight million people. Many more have crossed international boundaries fleeing famine, drought, and disease.

The United States consistently has maintained that refugee assistance and the search for solutions to refugee problems are matters of international concern and responsibility. Accordingly, the United States continues to contribute to internationally sponsored programs to provide relief assistance and to promote voluntary repatriation or settlement within the region of origin.

The United States also admits for resettlement refugees who have no recourse other than third country resettlement, especially those who have close ties to the United States. Our refugee programs are dedicated to meeting humanitarian objectives and are consistent with the foreign policy goals of the United States.

In preparing our appropriation request for FY 1987, we have been ever mindful of the need for the federal government to reduce significantly its overall spending. I believe that careful examination of our presentation will show that the amounts requested in every category are modest, but enough to support our humanitarian objectives and foreign policy goals.

The Migration and Refugee Assistance (MRA) request for FY 1987 totals about $347.5 million, an increase of $8.6 million over the FY 1986 appropriated amount and about $23 million over the funds available in FY 1986 after the reductions mandated by the Balanced Budget and Emergency Deficit Control Act of 1985. However, this level of proposed funding compares to actual spending in FY 1985 of about $350 million.

In addition, we are requesting a $25 million replenishment of the Emergency Refugee and Migration Assistance account, which is permanently authorized at $50 million but which now includes appropriated funds of only about $18 million. This replenishment is needed if the emergency fund is to be capable of fulfilling its purpose -- that is, providing the President the flexibility to fund responsive U.S. action to address urgent and unforeseen refugee emergencies which may arise at any time.

The Migration and Refugee Affairs account is divided into four categories of expenditures: (1) Refugee Admissions to the United States, (2) Refugee Assistance overseas, (3) Other Assistance activities, and (4) Administrative Expenses.

My discussion of these four categories compares the amounts requested for FY 1987 with both the appropriated FY 1986 amounts and the funds now available. The current distribution of FY 1986 funds available after the Gramm-Rudman-Hollings cuts do not reflect the Department's final assessment of priority needs. Rather, the distribution is in line with legal requirements regarding how the Department could spread the overall cut. We therefore expect to seek to reprogram FY 1986 money among the four categories in the third quarter when assessments of refugee needs for the year have been further refined.

For Refugee Admissions to the United States, we are requesting $109.1 million, about 30 percent of our total request and a decrease of $13 million from the FY 1986 appropriated amount and of about $5.5 million from the revised level. These funds will cover the operating expenses at modest levels of programs administered by the Department that support our overall admissions program. These programs include processing, transportation loans, language training and orientation, and initial reception and placement.

The budgeted admissions level for FY 1987 is 63,000, including 42,000 from East Asia. As you will recall, Secretary Shultz last October appointed a high level advisory panel headed by former Governor Ray of Iowa to look into the Indochinese refugee situation and to make recommendations for U.S. policy in the region. We expect the panel to complete its report in April.

The request for Refugee Assistance programs overseas totals $195 million, about 56 percent of the total request, and is an increase of $8.3 million over the FY 1986 appropriation and of $14.5 million over the revised level. This level of funding will provide adequate support, based on U.S. assessment of our fair share, to the core program costs of the international organizations and other agencies that carry out relief and resettlement programs overseas. The increase reflects increases in program costs due to inflation and growth in recipient populations.

Of this amount for overseas assistance, $29.4 million is requested for assistance to Indochinese refugees in Southeast Asia. These funds primarily will support the work of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Border Relief Operation (UNBRO), the International Committee of the Red Cross (ICRC), and other agencies that provide care and maintenance services to refugees in first asylum and the 250,000 Cambodian displaced persons (as of February, 1986) who remain in camps along the Thai-Cambodian border. Besides these programs, $1.75 million for anti-piracy programs in the Gulf of Thailand and $600,000 for the UNHCR Orderly Departure Program are also included.

The overseas assistance request also includes about $60.5 million for assistance programs in Africa. This amount will be used to support the core programs for material assistance, medical and educational aid, and protection activities of the UNHCR and the ICRC in Africa, as well as special projects such as refugee scholarships and self-help activities. The immense need to help the refugees in Africa is well-known to us all.

The request for Near East and South Asia assistance programs totals $87.5 million. Of this, $67 million is budgeted for the provision of basic health and education programs to Palestine refugees through the U.S. contribution to the United Nation Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). The other $20.5 million comprises U.S. contributions to the core assistance programs for the world's largest single refugee population, the Afghans in Pakistan, administered by the UNHCR and the ICRC.

The final part of the overseas assistance category includes $17.7 million for relief assistance programs and limited repatriation activities in Latin America administered by the UNHCR, the ICRC, and other agencies. This is in response to the continued high level of refugee needs in this region.

The third category, Other Assistance, is budgeted at $34.9 million in our FY 1987 request, an increase of $12.9 million from FY 1986 appropriations and $13.4 million from the revised level. The largest part of this request is a $25 million contribution to the United Israel Appeal for its program of assistance to refugees resettling in Israel, $12.5 million more than the appropriated FY 1986 amount. This amount is earmarked for this purpose in the Foreign Relations Authorization Act for FY 1987. The remainder includes funding of the administrative and operational budgets of the Intergovernmental Committee for Migration (ICM), and the U.S. contribution to the ordinary (headquarters and non-regional) budget of ICRC.

And finally, we request $8.5 million for the Administrative Expenses of the Department of State Bureau for Refugee Programs, an increase of $370,000 from the FY 1986 appropriations and $700,000 from the revised level. Most of this increase is attributable to price increases, although within this amount the Department also will fund one new position, a second Refugee Officer in Islamabad. This officer will oversee relief programs for approximately 2.7 million Afghan refugees, with special emphasis on monitoring the use of our contributions to UNHCR and voluntary agencies.

In closing, Mr. Chairman, I would like to express my personal appreciation and the appreciation of the Department of State for the support you and other members of this Committee have shown toward refugee affairs. The needs are great, but I am confident that by working together we will be able to continue to provide adequate levels of support for these vital, humanitarian programs.

ADMISSIONS FROM LATIN AMERICA

Mr. OBEY. Okay.

Mr. Purcell, I am told, and correct me if I am wrong, that at the most recent refugee consultation in September, Senator Kennedy pointed out that, in contrast to Canada, which has accepted 5,000 refugees from Central America, and Australia, which has accepted 1,100 refugees from Central America, the United States has admitted far less than that, only 57, all of them from Cuba. Are those figures accurate?

Mr. PURCELL. Those figures were accurate at that time, yes, sir.

Mr. OBEY. How do you explain the large differences between the number of persons admitted into the U.S. versus Canada and Australia?

Mr. PURCELL. I think you have got to look at the system for resolving refugee issues. Under the U.S. provision, there are three basic solutions we are supposed to follow. The first is to return people safely where that can be done; secondly is regional settlement where that is possible; third, and least preferable, are admissions, third-country admissions. We maintain, on the U.S. side, that it is necessary and desirable to follow those priority solutions. We are finding that where voluntary repatriation is occurring in Central America on a limited scale, the first solution can begin to come into play more, I believe.

Secondly, regional settlements, are certainly possible. We have a pattern of regional safe asylum from Mexico through Costa Rica. Presently we estimate we have around 300,000 refugees in Central America for whom we are aiding countries of first asylum to care for and maintain the refugees. Of that total, about 115,000 are in UNHCR camps. That is Mexico, Honduras and Costa Rica. We believe that it is necessary to follow the durable solutions which the U.N. convention protocol describes, and we are following them.

We have maintained that if there are refugees who apply through the normal process who are in a life-threatening situation or formerly associated with employment in the U.S., we will consider them. We are giving major emphasis to the first two and three durable solutions.

Canada and Australia are certainly taking additional refugees, and I have spoken to them. They are sovereign governments and can do whatever they please. Our response—and we are the largest financial contributor to the U.N. to care for refugees in Central America—our response is to care for them in the region. If that solution becomes unworkable, then certainly we will consider third country resettlement programs. At this point, we do not consider massive third country resettlement programs to be necessary or in order.

Mr. OBEY. Do you call 5,000 massive?

Mr. PURCELL. No, I wouldn't call it massive in terms of massive flows we have seen over the years. I would not call it massive. We are aiding upwards of 115,000. We are aiding, in accordance with the Conventions and Protocols we have signed, that where regional solutions are possible, we are going to support them. We do that all over the world.

Mr. **Obey**. You have given a very thorough response to my question, but I guess it still does not answer, in my mind, why the difference, why the Canadians—I mean, the Canadians are dealing with the same pieces of paper we are in terms of interpreting any agreements. Why are they providing for 5,000 people versus our 57?

Mr. **Purcell**. All over the world we are finding the three major governments in admitting refugees are the U.S., Canadians and Australians. We all interpret our responsibilities differently. But we believe, and I think the Canadians and Australians will have to speak for themselves, we believe large resettlement from third countries would undercut other durable solutions. If, in fact, those two are not workable, we are certainly open to a third solution.

The Canadian and Australians make their own decisions, and we talk with them, but we can't speak for them. That is their interpretation of their responsibility.

INS DETENTION OF ALIENS

Mr. **Obey**. In October, 1982, the Immigration and Naturalization Service issued a final rule stating aliens who arrive without proper entry documents would be detained in Federal prison facilities until their cases are reviewed. Is that correct?

Mr. **Purcell**. That was for certain groups that came in.

Mr. **Obey**. I am told among those expressing concern over that policy was the U.N. High Commissioner for Refugees who reportedly suggested that that violated U.S. treaty obligations. Is that a reasonable description of what they said?

Mr. **Purcell**. The Commission certainly has the job to look at issues like that. Where they believe a government is operating contrary to treaty, they should call it to the attention of that government.

Mr. **Obey**. How many asylum seekers are currently under detention in U.S. facilities?

Mr. **Purcell**. I will have to supply that for the record. That is the Department of Justice. It is not my responsibility. I will get an answer for you.

Mr. **Obey**. Any idea?

Mr. **Purcell**. I think it is in the low thousands.

Mr. **Obey**. A thousand?

Mr. **Purcell**. Yes.

Mr. **Obey**. Do we know which countries they come from?

Mr. **Purcell**. I think there were—the two that I am most familiar with obviously in earlier dates were both those entering illegally from Haiti and south Afghanistan, although they were from other East European countries as well.

Mr. **Obey**. What does it cost to keep them in detention?

Mr. **Purcell**. It is relatively expensive. I will get that from the Justice Department for you.

Mr. **Obey**. I would like to know total and per capita.

Has that detention policy resulted in any change in the number of aliens seeking asylum directly in the United States, to your knowledge?

Mr. **Purcell**. Well, a number of factors, of which that may be one, have certainly decreased the number of asylum seekers coming in from Haiti. Those from Afghanistan and Iran are still at about prior levels. It doesn't seem to have deterred them. There is high motivation for many people to come to the United States.

Mr. OBEY. Has it resulted in any change in the number of people seeking asylum in U.S. facilities abroad?

Mr. PURCELL. I don't see that it has changed that, to my knowledge. And I will have to confirm that for you.

[The information follows:]

MAY 15 1986 CO 703.1050

SIGNED AND MAILED

Honorable David Obey
Chairman, Subcommittee on Foreign Operations
Committee on Foreign Affairs
House of Representatives
2217 Rayburn Building
Washington, D.C. 20515

Dear Mr. Chairman:

Mr. James Purcell, Director, Bureau of Refugee Programs, United States Department of State provided the Immigration and Naturalization Service (INS) a number of questions which you raised during hearings on April 18, 1986, before the Subcommittee on Foreign Operations on the Department of State's budget for Fiscal Year 1987. This is in reply to those questions falling within the jurisdiction of the INS.

1. **QUESTION:** Is it correct that the INS issued a final rule in October 1982 stating that aliens who arrive without proper entry documents would be detained in federal prison facilities until their cases are reviewed?

ANSWER: Section 235(b) of the Immigration and Nationality Act (INA) directs that every alien (other than crewmen, stowaways, and security risks who are covered by separate provisions) "who may not appear to the examining immigration officer at the port of arrival to be clearly, and beyond a doubt, entitled to land shall be detained for further inquiry to be conducted by a special inquiry officer". Thus, detention is mandated by statute.

The final rule published in October 1982 reflects long standing Service policy. Publication responded to a finding that the INS had technically violated the Administrative Procedures Act by failing to publish a policy not specifically addressed in regulations. It should be noted that the October 1982 final rule, consistent with Service policy, does not prescribe detention in federal prison facilities. Rather it merely prescribes detention.

2. **QUESTION:** Is it correct, as reported, that the United Nations High Commissioner for Refugees (UNHCR) has suggested that the detention policy violates United States treaty obligations?

ANSWER: To our knowledge, the reported statement is incorrect. This policy to enforce the provisions of Section 237 of the INA is fully consistent with our laws and international obligations to deter unlawful migration between countries.

3. **QUESTION:** How many asylum seekers are currently under detention in United States facilities and from what countries do they come?

ANSWER: The INS does not presently have the capacity to capture this data nationally. Such data will be available on an automated basis as a part of the Legal Case Tracking System (LCTS). This system, for reasons of budget and the hardware acquisition freeze, currently does not operate in a sufficient number of sites to enable reliable national estimates. Accordingly, we are unable to provide estimates of the number of aliens in detention who have filed for asylum.

4. **QUESTION:** What does it cost to keep them in detention?

ANSWER: For reasons noted above, aggregate cost-information cannot be provided. Per capita cost information is provided below.

Detention Cost Fiscal Year 1985.

Overall average cost per detention day - $26.36
Average cost per detention day (Service Processing Centers) - $26.42
Average cost per detention day (Non-Service) - $26.25
Contract Facilities - $21.89
State/Local Jails - $31.16

5. **QUESTION:** Has the detention policy resulted in any change in the number of aliens seeking asylum directly in the United States?

ANSWER: There are no data available to the INS, and no logical or intuitive bases for concluding that current detention policy has affected the numbers of aliens seeking asylum directly in the United States.

6. **QUESTION:** Has the detention policy resulted in any change in the number of people seeking asylum in United States facilities abroad?

ANSWER: Presumably, the existence of the detention policy encourages use of the overseas refugee processing system provided for in the Refugee Act of 1980. Available anecdotal information fully supports this view. Indeed, the detention policy announced in October 1982 is predicated in part on the preference for overseas refugee processing and selection articulated in the Refugee Act of 1980.

Sincerely,

FOR THE COMMISSIONER

Greg Leo
Director, Congressional
and Public Affairs

GL
5/15/86

DECREASE IN ADMISSIONS REQUEST

Mr. OBEY. You are requesting a decrease of $5.5 million for the refugee admissions program from the 1986 sequestration level.

Mr. PURCELL. That is correct.

Mr. OBEY. So I assume that reflects your intention to admit fewer refugees in 1987 than before?

Mr. PURCELL. We consulted with the Congress last September on the level of 67,000. The 1987 budget will be for 63,000. However, as I mentioned, I am looking at 1986. Given the needs we have and the resources we have, I will probably be making some reprogramming requests that will result in fewer admissions.

QUESTIONS FOR THE RECORD

Question. I notice that you are requesting a decrease of $5.5 million for your refugee admissions program from the 1986 sequestration level. (1987 request $109.1 million, 30 percent of total programs.) Does this decrease reflect an intention to admit fewer refugees in 1987 than this year?

Answer. The consultations level for FY 1986 is 67,000 refugee admissions from all regions of the world. However, we currently expect to admit about 61,000 because of circumstances in several regions, most notably the continued suspension of the migration agreement by Cuba and the disruption of refugee processing in the Sudan, and because of budget cuts under the Balanced Budget and Emergency Deficit Control Act of 1985. Numbers which we project will go unused from some regions of the world, which we normally would attempt to reprogram to other regions where need exceeds the current ceiling, will instead be lapsed.

Our FY 1987 budget request is based on 63,000 admissions. This is 4,000 lower than the FY 1986 consultation level, but 2,000 higher than our current projection of FY 1986 admissions.

Question. The refugee admissions ceiling for FY 1986 is 67,000. The President's FY 87 budget is based on 63,000 admissions. How close do you anticipate coming to these two levels for FY 86 and FY 87?

Answer. The number of refugees worldwide is currently estimated at 8 to 10 million. The United States, in concert with many other countries and with international refugee organizations, actively seeks durable solutions for these populations. In order of preference, the durable solutions are (1) voluntary repatriation to countries of origin, (2) settlement within the region of origin, and (3) resettlement in third countries. The third solution is considered only when the first two solutions have been examined and found to be not feasible.

In addition, the United States promotes the third solution, third country resettlement, as an international effort, with admission to the United States being only one option to be considered. Thus the numbers of refugees admitted to the United States each year is only a small fraction of the numbers of refugees in first asylum throughout the world. In addition, U.S. admission is considered only for those refugees for whom no other solutions are feasible.

The number of actual refugee admissions to the U.S. in any given year is also dependent on the admissions levels allowed under the ceiling and the funds available to cover admissions costs. These factors will affect the number of actual admissions in FY 1986 and FY 1987.

The Worldwide FY 1986 refugee admissions ceiling of 67,000 was set last fall by the President in consultation with Congress. This ceiling was based on anticipated demand at that time and an anticipated MRA budget totaling about $338 million. The following regional ceilings were established:

East Asia:	
First Asylum	37,000
O.D.P	8,500
Eastern Europe/Soviet Union	9,500
Near East/South Asia	6,000
Africa	3,000
Latin America/Caribbean	3,000
Total	67,000

However, actual FY 1986 admissions likely will fall substantially below the worldwide ceiling to about 61,000 because of the circumstances described below and FY 1986 budget reductions.

As the Secretary stated during consultations, the Latin America/Caribbean ceiling of 3,000 anticipated the reinstatement of the 1984 migration agreement with Cuba. Since this has not happended, we expect refugee admissions from this region not to exceed 350.

Internal developments in the Sudan, our major processing post for African refugees, have thus far severely limited the number of refugees departing for the U.S. from that country this year. Although we expect to be able to move a substantial number of refugees from the Sudan during the balance of the fiscal year, the total number of African refugees entering the U.S. in FY 1986 will probably be less than 2,000 (or more than 1,000 below the regional ceiling).

There are sufficient numbers of refugees in the other regions who likely are eligible for U.S. resettlement to use nearly all of the numbers available under the other regional ceilings. However, budget reductions will force us to restrict the number of admissions from East Asia. We also will not be able to seek to transfer unused numbers from regions with shortfalls to other regions where demand is high because funds are not available to cover the movement and resettlememt costs.

Concering admissions levels in FY 1987, our most recent analysis of refugee situations worldwide indicates that at least 63,000 budgeted admissions will be needed. However, circumstances can change rapidly and resettlement needs can rise and fall quickly depending on political and other factors. A further in-depth assessment of need will be completed prior to the consultations this fall; this assessment will provide the most relevant basis for determination of the FY 1987 admissions ceilings. However, the number of actual refugee admissions in FY 1987 will also depend on whether funding is available.

Mr. Obey. So any idea what that—so you are saying the number will climb to about what?

Mr. Purcell. I would say a level of between 61,000 to 63,000.

SOUTHEAST ASIAN REFUGEES

Mr. Obey. The Senate Judiciary Committee stated the majority of Southeast Asians leaving are migrants rather than true refugees. That report concludes "The time has come for the U.S. to aggressively support the Government of Thailand and U.N. High Commission for Refugees to repatriate those people to their homelands or classify them as migrants under the migration and admission quotas."

What is your assessment of that report? Do you agree with those conclusions?

Mr. Purcell. I have heard those conclusions before. I think it would be very difficult to look at the continuing flows of refugees out of the Communist countries of Indochina and make a judgment as to their motivation. One of the ways Communist governments discriminate against people they don't like is economic pressures. I don't think you can make a simple jump in logic because someone is saying they don't have a job or can't make their way, they are not a refugee. I think it is time we look at the continuing flow out of Southeast Asia and look at our policies for the future.

In that regard, the Secretary of State commissioned a high level private panel this past year to look at this. It was chaired by Robert Ray of Ohio. They will be presenting their report this afternoon at 2:00 p.m. to the Secretary, and I provided for you an advance copy. Certainly we want to look at the continuing flows, we want to continue to be responsive for legitimate refugees, but we want to decreasingly use refugee programs for those leaving for family purposes.

I think this is one of the major thrusts applied to the panel's report, and we will be looking to go in that direction over the coming year.

Mr. OBEY. I have several other questions on refugee admissions which I will submit for the record and ask you to respond to them, and I will do the same for most of these.

[The information follows:]

QUESTIONS FOR THE RECORD

Question. A staff report of the Senate Judiciary Committee prepared last summer states that the majority of Southeast Asians leaving their countries for refugee camps are economic migrants rather than true refugees.

The report concludes that the time has come for the United States to aggressively support the Government of Thailand and the UN High Commissioner for Refugees to either repatriate these people to their homelands or to classify tham as migrants under the migration admissions quota, rather than as refugees.

Do you agree with the conclusions of this report?

Answer. I have heard those conclusions before, and indeed we are taking a serious look at the continuing flow of refugees from the Indochinese countries. The Ray Panel report recommends that the United States pursue more vigorously the admission of Indochinese as immigrants in all cases where that is a reasonable possibility, especially with family reunification cases. We are looking to go in that direction over the coming year.

However, I think it is difficult to look at the continuing flow of refugees out of Indochina and make a single judgment of their motivation for fleeing their home countries. One of the ways Communist governments persecute is through economic pressures—preventing one from working or supporting himself. It is not always completely accurate to say that someone who did not have a job or could not support himself in a Communist country is not a refugee fleeing persecution.

Question. Last October, Secretary Shultz appointed former Governor Ray of Iowa to head an advisory panel to look into the Indochinese refugee situation and to make recommendations. You state that you expect this report in April.

Does your 1987 budget anticipate any recommendations which may be made?

Answer. The request for FY 1987 was formulated on the basis of current policy regarding Indochinese refugees, and did not anticipate any major changes.

The Indochinese Refugee Panel issued its report on April 18, 1986. The major findings and recommendations of the Panel's report are summarized in the attached paper. The Department is currently in the process of analyzing the recommendations as part of an overall review of Southeast Asia refugee policy. When final decisions are made on any policy revisions pursuant to the Panel's report they will be reflected in the programming of funds appropriated for FY 1987.

INDOCHINESE REFUGEE PANEL

FINDINGS

The Panel believes that although conditions are changing, the refugee situation in SE Asia continues to warrant special international relief and resettlement efforts.

The Panel recognizes that the roots of the refugee situation lie with Vietnam and its repressive and expansionist policies.

The Panel noted that first asylum continues in the nations of Southeast Asia, but that the policy is conditional on evidence that these countries will not be left with a residual population.

The Panel stated that American traditions of humanitarian concern and response require continued U.S. leadership in an international program for Indochinese refugees.

RECOMMENDATIONS

In response to these findings, the Panel made a number of recommendations which are keyed to six areas which Secretary Shultz asked them to review.

The Panel has recommended that the U.S. reassert the importance it attaches to continuation of first asylum in SE Asia and that it work with other members of the international community to ensure adequate support for relief efforts and to identify solutions to the long-stayer populations.

The Panel believes that the U.S. admissions program should include both refugee and immigrant processing. It recommends that refugee processing be reserved for those fearing persecution, and that immigration be used for those seeking family reunification. The Panel suggests that a transition period be provided as well as an outreach program to inform potential refugees in Indochina and relatives in the U.S. of the proposed new procedures.

The Panel asks that the current impasse over the Orderly Departure Program be resolved and efforts be made to make the program more effective, especially for reeducation camp inmates.

The Panel recommends that the U.S. support the Lao screening program and asks that the UNHCR explore the full range of durable solutions for the highland and lowland Lao populations, including voluntary repatriation, settlement in place, and third country resettlement.

The Panel supports present immigrant visa processing from the Khmer border population and encourages expansion of education and protection efforts for this population.

The Panel recommends that the U.S. process land Vietnamese in all priorities and that the Royal Thai Government provide a safe site away from the border and the Khmer populations.

The Panel supports the efforts of the new High Commissioner to strengthen the principle of international burden-sharing, to improve UNHCR efficiency and effectiveness, and to identify durable solutions for the Indochinese refugee population.

REFUGEE POPULATIONS

Mr. OBEY. Let me ask a few. In your statement, you indicate there are over eight million refugees today. How many were there in 1980?

Mr. PURCELL. Well, in 1980, I will have to check it, but that number was substantially lower than that. We have seen this past year our world refugee report indicated in 1985 we had seen the population go from about eight million to about 8.8 million, and the figure tends to keep growing. There are other estimates of the worldwide refugee population. The U.S. Committee on Refugees has just issued a report, and their total is, they say we have just passed ten million.

Refugee counting is not a precise science, but somewhere between nine and ten million, and growing.

Mr. OBEY. Do you have any idea how many there are now?

Mr. PURCELL. I would say probably six to seven million in 1980.

REFUGEE ADMISSIONS TO U.S.

Mr. OBEY. How many admissions did the U.S. have in 1980 versus 1985?

Mr. PURCELL. In 1985, we consulted on the level of 70,000, we admitted 68,045. I will take 1981, since it is the earliest year I have on my chart. We had an authorized consultation level of 217,000, and we admitted 159,252. A great majority of those, however, were from Southeast Asia.

QUESTION FOR THE RECORD

Question. How many admissions did we have in 1980? How many admissions did we have in 1985?

Answer. Refugee admissions to the United States in FY 1980 numbered 207,116, the highest number admitted any year since the fall of the Indochinese countries in 1975. Almost 80 percent of those admissions were Indochinese—163,799. A large number were also refugees from the Soviet Union—28,444.

In FY 1985 the United States admitted 68,045 refugees, compared to the FY 1985 consultations level of 70,000. The largest percentage of these admissions were again Indochinese—73 percent, or 49,970.

Mr. OBEY. Why have U.S. admissions of the total refugee population fallen so much since 1980? If I am asked that question—I haven't been asked exactly that question, but I have been asked in general terms why our share has dropped. What is my response?

Mr. PURCELL. I think you have to look totally at Southeast Asia. During those periods in 1980, we were seeing mass expulsions and departures of refugees from Vietnam, Cambodia and Laos. In 1979, President Carter, in response to this large boat people problem, increased the U.S. offtake to 168,000 per year. As long as those flows were high, we had large resettlement programs.

We have tried to put in place over the years a number of programs to try to permit more orderly departure. The rates of boat escapes and land escapes are diminishing substantially, so that we have seen a continual decline of boat departures out of Vietnam. In fact, this past year it was like 25,000. We hope to continue to diminish boat departures.

Our levels had to be set to coincide with the need. The need in 1980, 1981 and 1982 was substantial. It does seem in Southeast Asia, as in every other part of the world, we should look at all durable solutions. And we want to try to get other governments to take their share for resettlement also. The great bulk of the decline has been in Southeast Asia, and that has been due to diminished boat and land——

Mr. OBEY. Do you think that is responsive to my question as to why we are taking a smaller share?

Mr. PURCELL. Well, I think you will find that if you look at the worldwide resettlement of refugees, our overall share is not declining, the number being resettled is declining quite rapidly. We still take about half of all refugees who are being resettled out of Southeast Asia. We continue to take about half of all refugees who are fleeing the Communist governments in Eastern Europe. We allow any Soviet refugee to be out and have freedom of choice whether to go to the U.S., Israel, or whatever country they want.

In terms of the Near East and Africa, we are the largest resettler of refugees in Africa. Certainly the proportion is taking the same.

QUESTION FOR THE RECORD

Question. Why have U.S. admissions as a share of the total refugee population fallen so much since 1980?

Answer. The United States strongly supports efforts to promote voluntary repatriation and settlement within the region of origin as durable solutions for refugee populations. Only when these two solutions have been examined and found not to be feasible do we consider third country resettlement. In addition, we consider third country resettlement as an international responsibility which many countries must share.

In the late 1970's and early 1980's we saw mass expulsions and departures of refugees from Vietnam, Cambodia, and Laos. In response to the large number of people arriving in the first asylum countries of Southeast Asia, and because of the need for third country resettlement of many among this population, President Carter increased U.S. offtake in 1979 to 168,000 per year. As long as the flows were high and third country resettlement was the only available solution, the U.S. had a large resettlement program.

Over the years we have tried to put into place a program to permit more orderly departures from Vietnam. Partially because of this, the rates of boat escapes has diminished substantially. In fact, in FY 1985 the number of boat arrivals in countries of first asylum dropped to less than 24,000, and the total number of people in first asylum camps dropped to slightly more than 150,000 at the beginning of this fiscal year.

In other words, a major factor in the U.S admissions program is the absence of other solutions and thus the need for third country resettlement. In the late 1970's and early 1980's, that need was great among Indochinese refugees for resettlement outside East Asia. Today, because of far fewer arrivals from Indochina and far fewer people in first asylum camps, the need is much less.

However, if we look at the worldwide numbers of Indochinese refugees who are resettled in third countries, we find that the U.S. share remains high. Of all Indochinese resettled in third countries over the past few years, the U.S. has admitted over half. We also admit about half of all refugees who flee communist governments in Eastern Europe, and we maintain the largest resettlement program for refugees from the Near East and Africa.

POLISH REFUGEES

Mr. OBEY. You mentioned East Europe. Has the policy of the Polish government changed any recently in terms of the way they are dealing with Polish Jews?

Mr. PURCELL. Well, there are still a number of Polish Jews getting out and resettling in other countries. There have been a number of discussions with them regarding their treatment of not only the Jews but other dissidents. They certainly have been a bit more responsive in terms of those political detainees than they were in the 1980 to 1983 period. They are a little more respectful of the rights of these people, but still it is a harsh government.

Mr. OBEY. We had a very distasteful meeting with the Polish authorities in 1982. We asked a number of questions about what their intention was toward political prisoners at the time, and they indicated that a lot of them were "cosmopolitans", their term for Jews, and they might entertain their being released provided that they left the country. The Pope had some rather strong words to say about that approach.

I was wondering whether they had moderated that specific approach.

Mr. PURCELL. I don't think they articulate it quite that way any more. I wouldn't be able to ascertain, but I think at that time you remember most of the Solidarity workers were being forced to leave the country, and we set up a very special program for them, and we were able to help them resettle substantial numbers of them. The rhetoric has toned down. Whether their attitudes are different, I wouldn't know.

AFGHAN REFUGEES

Mr. OBEY. I am not going to have time for many more of these. Could you tell us, is it true the largest number of refugees these days are Afghans?

Mr. PURCELL. The largest number concentrated in one country are Afghans. The government of Pakistan estimates 2.7 million registered; they say there are about 300,000 additional who haven't gotten around to registering. World food distribution programs say there are 2.2 million. We are trying to have a more precise count of the number of refugees. They are probably between 2.5 to three million in Pakistan, probably upwards of a million also in Iran. In terms of a country, it certainly is the largest.

Mr. OBEY. Another question on that point which I will submit for the record at this point.

[The information follows:]

QUESTION FOR THE RECORD

Question. Would you tell the number of Afghan refugees today and the distribution of other major refugee groups and their sizes? (Thailand, Sudan, Latin America, others)

Answer. We estimate current regional refugee populations as follows:

Africa:	
Sudan	1,100,000
Other African countries	1,753,300
Subtotal	2,853,300
Southeast Asia:	
Refugees:	
Thailand	125,050
Other countries	43,430
Displaced Khmer on Thai/Cambodian border	250,000
Subtotal	418,480
Near East:	
Afghans in Pakistan registered with UNHCR	2,650,000
Palestinians registered with UNRWA	2,100,000
Subtotal	4,750,000
Latin America:	
Registered with UNHCR	119,000
Unregistered population	185,000
Subtotal	304,000
Total	8,325,780

As many as 300,000 Afghans in Pakistan remain unregistered, according to Government of Pakistan estimates. In addition, up to 1.5 million Afghans reportedly have sought refuge in Iran.

Most unregistered Latin American refugees have found work, legally or illegally, in their countries of asylum.

PIRACY IN THE GULF OF THAILAND

Mr. OBEY. What is the status of piracy reports and problems in the Gulf of Thailand, any more reports of boat pushoffs by Thai officials?

Mr. PURCELL. Yes, sir. That is one area I think we can look with some pride, although we can never be satisfied. When I first started in this program, in the late 1970s and 1980, the rate of attack was about 83 percent of all those vessels leaving Vietnam, and most of them were attacked on the average of two to three times. In 1980, we started a bilateral U.S. program. The following year that was made multilateral.

We have found that our previous strategy of putting money into boats and planes for air and sea patrol doesn't work. We, therefore, are trying to enlist the cooperation of the Thais on land enforcement, trying to get refugees to identify their attackers. The Thai have been bringing them to court, they are being sentenced and imprisoned.

To give you some idea of statistics, last year, 1985, 25 percent of the boats arriving in Thailand were attacked. Similar figures for Malaysia. Throughout the whole Gulf of Thailand, that previous 83 percent attack rate is around 26 percent. Although statistics are down, I don't think we can take any comfort in the fact that 26 percent of the boats leaving Vietnam are attacked, women are being raped, children abused and abducted and stolen.

We have put in force a special anti-piracy agreement in the field. For the first year we are getting cooperation from the Thais. They are registering boats, so they can be more easily identified. We are putting up these little stickers all over Thailand saying, "If you know of a pirate, report it to the government." I think we can take some comfort that the rate of attack is going down, but it is still too high to be tolerated. Deaths, rapes and abductions are down, but still too far for civilized people.

QUESTION FOR THE RECORD

Question. What is the status of piracy reports and problems in the Gulf of Thailand? Have there been any more reports of boat pushoffs by Thai officials?

Answer.

A. PIRACY REPORTS: COMPARISON OF 1984 AND 1985

	Thailand		Malaysia	
	1984	1985	1984	1985
Boats arrived	181.0	257.0	245.0	194.0
Boats attacked	66.0	63.0	74.0	52.0
Percent of boats attacked	36.5	24.5	30.2	26.8
Deaths due to piracy	66.0	46.0	2.0	28.0
Rapes	54.0	64.0	27.0	20.0
Abductions	60.0	72.0	99.0	46.0

B. PIRACY REPORTS: COMPARISON OF FIRST QUARTER 1985 AND FIRST QUARTER 1986

	Thailand		Malaysia	
	1985	1986	1985	1986
Boats arrived	65	110	26.0	40
Boats attacked	23	22	9.0	12
Percent of boats attacked	35	20	34.6	30
Deaths due to piracy	21	0	0	0
Rapes	20	10	27.0	20
Abductions			15.0	20

Chart A gives an overview of the situation during the past few years, while Chart B shows that the situation is somewhat changed from a year ago. A comparison of the two charts discloses that the trends are generally the same, so I shall concentrate on the trends regarding the first quarter of this year versus a similar period a year ago.

For refugee boat arrivals in Malaysia, a comparison of the first three months of 1985 and 1986 shows that while the number of boats attacked has risen from 9 to 12, the percent of boats attacked has fallen from 34.6% to 30%. Similarly, the number of attacks per boat has fallen from 1.7 to 1.4.

With regard to refugee boat arrivals in Thailand over this period, there has been a decrease in the number of incidents of violence. The number of boats arrived has risen from 65 to 110, while the number of boats attacked has fallen from 23 to 22, with a corresponding drop in the percent of boards attacked: 35% for the first quarter of 1985 versus 20% for the first quarter of this year. Another gratifying statistic is the drop in deaths due to piracy, from 21 a year ago to zero so far this year.

With regard to boat push-offs, we have information of only two possible forced departures of a Vietnamese boat this year involving Thai officials.

On January 23, the people aboard a Vietnamese refugee boat were provided with a new boat and towed by an official police patrol vessel. After sailing five or six hours, the vessel landed at Kota Baru, Malaysia. We do not know whether the Vietnamese intended in the first place to sail to Malaysia, or whether they were refused admission into Thailand.

On April 28, a second refugee boat, with ten individuals on board, arrived at southern Thailand. The refugees were reportedly denied access to Thailand by Thai authorities, but were given directions to Malaysia and subsequently landed directly at Rulau Bidong refugee camp the next day.

KHMER VICTIMS OF VIETNAMESE ATTACKS

Mr. Obey. Why were 250,000 Cambodians forced out of Cambodia by the last major Vietnamese military push not classified as refugees?

Mr. Purcell. It gets back to this program, in 1979 we had the Pol Pot forces striking in Vietnam, and we found people starting to leave. Between September of 1979 and 1980, 165,000 people were classified as refugees. In 1980, the Thais said they would allow no more Cambodians to come into that country. Since that time, the population on the Thai border has varied between 200,000 and 250,000. But they basically have been along the border unless they are forced inland.

This past year the Vietnamese attacked all along the border, and the Khmer are granted temporary asylum in Thailand. That word is important, temporary asylum. The U.S., in response to the program, set up UNICEF as a lead agency to deal with the border. They set up a group called the U.N. Border Relief. The mandate is to deal with the displaced persons along the Thai border, provide for their relief and education help. They are doing an extraordinarily good job.

At this point, the U.N. has recognized them as displaced persons. The Thais have agreed when their safety is at risk to let them temporarily evacuate into Thailand. The solution there obviously is a political solution. It will require the Vietnamese to withdraw. That is certainly the policy of the governments which we are following, but this is—you know, like in so many refugee problems we face around the world. You have to deal with the government to provide acceptance. The Thais are responsive to their needs, but they have not allowed them into the country to be classified as refugees.

Questions for the Record

Question. What actions has the United States taken to encourage the U.N. High Commissioner for Refugees to separate refugees from migrants in the camps in Southeast Asia?

Answer. The United States supports the Royal Thai Government/UNHCR screening program for Lao seeking to enter Thailand. Those judged to have a valid fear of persecution are admitted as refugees to UNHCR-administered camps. Those judged to be non-refugees are to be returned to Laos. Decisions of the Thai officials are subject to appeal by UNHCR observers. Although agreement in principle was received by UNHCR from the Lao Peoples Democratic Republic, to date the authorization for individual returns has not been forthcoming, and none of the rejected have been returned.

Establishing similar programs for Vietnamese refugees in the first asylum countries of Southeast Asia has not been possible for many reasons, including the Vietnamese government's refusal to accept the return of its citizens and the inability of UNHCR to monitor their treatment.

Cambodians are now permitted to enter and remain in Thailand as temporarily displaced persons. they are assisted and protected by the International Committee of the Red Cross and the U.N. Border Relief Operation. Except for approximately 23,000 Khmer at the Khao-I-Dang camp, the Khmer are not under the UNHCR mandate.

Question. What actions have the United States or other resettlement countries taken to encourage negotiations with the Southeast Asian governments for a repatriation program?

Answer. The United States and other resettlement governments support the efforts of the U.N. High Commissioner for Refugees who has representatives in Vietnam and Laos as well as in the countries of first asylum. They facilitate and monitor the voluntary repatriation of Indochinese refugees.

To date these efforts have been largely unsuccessful due to the intransigence of the Indochinese governments concerning the return of their citizens and the unwillingness of most Indochinese refugees to return to their homelands. Fewer than 3,500 of the 1.7 million arrivals since 1975 have been voluntarily repatriated. Of this number more than 3,000 have been to Laos.

In addition to regular contributions to relief and resettlement efforts in Southeast Asia, the U.S. this year provided $225,000 to UNHCR's Lao voluntary repatriation program which provides those in first asylum with information concerning conditions in Laos and assists those returning to Laos with their reintegration.

CONTRIBUTIONS TO ICRC AND ICM

Mr. OBEY. Okay, two other questions, and I have got to shut it down.

What is the level of assistance we have been providing the Red Cross and the International Committee for Migration, and what percentage of their budget will be represented by our contributions?

Mr. PURCELL. For the International Committee of the Red Cross, in 1984, their total program, including their ordinary budget and all the specials, was $125 million, to which we contributed $27.5 million or 22 percent. In 1985, their total program was $160 million, which we contributed $33 million, or 21 percent. In 1986, based on the numbers I have got right now, their overall level has risen to $166 million. We have available $21.2 million or 13 percent. Some of the needs I am facing put more money into their life preserving programs. The 1987 request, although their estimates are not totally firm yet, the requirements that we know about are $136 million, and we have a 1987 budget of $28 million to deal with that. That would be about 19 percent.

With regard to ICM, the other operation that you had asked for, their total program in 1984 was $24 million, to which we contributed 20 percent, and our program has varied between 18 and 19 percent of their total budget.

ASSESSED CONTRIBUTIONS

Mr. OBEY. Do we have any international agreements with those two groups which obligate—do you request a specific sum for their support?

Mr. PURCELL. We don't have any agreements with them. We did have a piece of legislation the Congress passed this past year in our authorization bill, sent to Congress, that we would support up to 20 percent of the ICRC. Since there is no money to back that up, I regard that as a statement of policy intent and not mandatory.

Certainly if I had to comply with that requirement this year, I would have to add about $10 million which I don't have.

Mr. Obey. You are saying Congress shouldn't be pushing those numbers on you unless they are providing the money to back it up?

Mr. Purcell. I think that would be——

RESPONSE TO STATE DEPARTMENT ON HAITI

Mr. Obey. I agree with that, which led me to the last point I want to make to you.

I mentioned to Mrs. Ruppe earlier that it came to my attention Elliott Abrams yesterday told a number of Haitians that I was their enemy, I was their problem because—I am not quite sure why, except that he somehow suggested that Obey was being the blank blank blank, and that if it weren't for me that they would be getting all the money they want.

I would simply respond that I agree that Congress shouldn't be telling you to perform miracles with mirrors. I don't think the administration should be asking us to do that either. When they ask us to—let me put it this way. Your program obviously is a very high priority for this committee. You have done a terribly important job, and we are sensitive to that. We are dealing with people's lives here. But even with a program this important we have to ask the question, is the administration providing monies to pay for these programs? And if they are not, then they are really not supporting these programs.

So I just caution you to remember in your own shop any reductions we might have to make will not be made on the grounds of substantive objection to either the way you are handling your shop or the program itself, but I simply don't like to have to peddle a line of baloney to my constituents, and I would be if I were pretending we could fund a $2 billion increase in foreign aid this year without increasing revenues to pay for it, which is what the administration is asking us to do.

And if Elliott Abrams or anyone else thinks I am going to do that, he is crazy as hell. Thanks very much.

Mr. Purcell. We appreciate your help. Thank you, sir.

Questions for the Record Submitted by Mr. Obey

Question. The FY 86 appropriation called for the opening of a U.S. foreign service position in Central America for work with refugees. Has this position been filled? What does this officer do? To what extent does this officer work with refugees along the Nicaragua-Honduras border (with the Contras)? To whom is this officer accountable? Does this officer relate in any way to the State Department's Office for Humanitarian assistance to Nicaragua?

Answer. A refugee officer position for the Central American region has been established and will be filled before the end of May, 1986. The officer will be stationed in Honduras, and will perform the following duties: report on the interaction between political and economic events and refugee issues in the region; recommend policy initiatives concerning the range of possible solutions to refugee problems; analyze international refugee organizations' programs in the Central American region; analyze refugee projects proposed by private voluntary organizations, and make recommendations concerning U.S. funding.

The officer will report on refugees in Honduras and the other countries of the region and will not work with the "Contras". The officer will be accountable to the Ambassador and Deputy Chief of Mission in our Embassy in Tegucigalpa and will report through normal embassy communications to the Department of State. The Nicaraguan Humanitarian Assistance office is operated out of Washington, not Honduras; the officer will not be a part of that operation.

Question. On March 10, the Foreign Minister of Honduras made a speech at the OAS in which, among other things, he said Honduras was overburdened by the influx of refugees from El Salvador, Nicaragua, and Guatemala. He said Honduras was considering becoming only a country of transit for refugees going onward to resettlement elsewhere in the Americas. I note that you have 3,000 admissions numbers set aside for the Western Hemisphere. Would any of these be used to respond to the Foreign Minister's plea?

Answer. The two preferred solutions to international refugee problems are voluntary repatriation and settlement within the region of origin. Resettlement outside the region of origin for substantial numbers of refugees is considered only when it becomes clear that neither of the preferred options can be pursued. In Central America, the two preferred solutions appear to be quite feasible at this time. A number of refugees from El Salvador and Guatemala have already voluntarily returned to those countreis. Under current circumstances, large-scale resettlement of refugees from Central America to the U.S. appears unjustified.

Our FY 1986 Latin American ceiling was set at 3,000 in anticipation that the government of Cuba might reinstate the 1984 migration agreement, which they unilaterally suspended. Secretary Schultz informed the Congress during consultations that numbers would be transferred from this ceiling or allowed to lapse if the agreement was not reinstated. Thus far the suspension remains in effect. Because of budgetary reductions, we have allowed 2,000 of the Latin American numbers to lapse rather than to transfer them to other regions. We currently have only 1,000 admissions numbers available for the region, although we estimate actual admissions to be no more than 250 unless Cuba were to lift the suspension of the migration agreement in the very near future.

The Department has instructed all of our Central American embassies, including the Embassy in Honduras, to submit to the Bureau for Refugee Program any Central American case which appears potentially eligible for the U.S. refugee program. Processing is currently restricted to applicants who qualify for priorities one (cases of special interest to the U.S.) and two (former USG employees). To date, no cases have been presented in FY 1986.

We continue to monitor the refugee situation in Central America very carefully. The Government of Honduras has been especially generous in its support of refugees fleeing civil strife in neighboring countries. We will continue to provide financial support to the UNHCR for the care and maintenance of these refugees.

Question. The Congress, in the legislative history surrounding the African Famine Relief and Recovery Act of 1985, as well as other legislation, expressed its support for the funding of projects for refugee rehabilitation outlined in the Second International Conference on Assistance to Refugees in Africa (ICARA II). While we understand a few such projects have received U.S. funding, it is our understanding that this has been on an ad hoc basis. Is there a deliberate rehabilitation component along the lines proposed at ICARA II for African refugees—particularly famine victims—within your bureau or elsewhere in the State Department? What are your plans for ICARA II-type funding? To what extent do you receive cooperation from USAID in rehabilitation measures for refugees?

Answer. The African Famine Relief and Recovery Supplemental Appropriations Act of FY 1985 provided that the Administration could use some of the funds appropriated for the MRA Appropriation for recovery, ICARA II-type projects "to address the immediate development needs created by refugees and displaced persons in Africa."

Although the Department sought to revise certain of the ICARA II projects to make them more responsive to immediate drought-induced needs, with a view to funding them under the short-term recovery concept as envisaged by the legislation, all of the supplemental funds were required for pressing emergency needs.

Given the deficit-reduction budgetary climate, the Administration sees few prospects for funding ICARA II-type projects from the MRA Appropriation in either FY 1986 or FY 1987.

Nonetheless, the Administration remains committed to the ICARA II process. It holds promise for reducing refugee assistance costs over the longer term, which would be in the interest of the USG as the largest single contributor of refugee assistance.

The USG had already, following ICARA I, begun funding development-oriented refugee projects. Projects begun before ICARA II are continuing today, and a number of other projects have commenced since the conference. To date, these projects total some $71,078,700.

The Bureau continues to collaborate with AID in project selection and programming. We anticipate that AID will contribute to selected ICARA II projects using previously appropriated refugee resettlement and facilities funds ($10 million, tentatively allocated, remain available), development assistance funds, and where available, local currencies.

The Administration also will work creatively with the UNHCR, as its programs shift from emergency activities, on a more aggressive pursuit of durable solutions.

The Administration is urging some non-traditional sources of private funding, such as USA for Africa and LiveAid Foundation/BandAid Trust, to consider funding ICARA II-type projects. American PVO's are being encouraged to focus on refugees as they design recovery and development projects for submission to the non-traditional funding sources.

Attached is a copy of the Department of State's plan for the funding of ICARA II type-projects and justification for not having funded ICARA II type-projects during fiscal year 1985. It provides a more in-depth review of ICARA II issues, and is submitted for the Congressional record.

ICARA II

The Second International Conference on Assistance to Refugees in Africa (ICARA II) took place in July 1984. The U.S. representative, the then Attorney General William French Smith, committed the United States to strong support of the ICARA II goal of achieving durable solutions to Africa's multiple refugee situations through an integration of refugee aid and development aid. The USG did not pledge a specific dollar amount at the conference. The Senate Appropriations Committee has requested that the Department of State report on its "plan for funding of ICARA II-type projects and its justification for not having funded ICARA II-type projects during FY 1985" (Senate Committee on Appropriations Report on the FY 1986 Foreign Assistance and Related Programs Appropriation Bill).

The ICARA II Process

The ICARA II conference itself was widely viewed as a success though it did not generate large pledges of funds from donors. Rather, in adopting the ICARA II Declaration and Program of Action, both donors and African host countries committed themselves to a process of linking refugee aid with development aid. Both would strive to make refugees and returnees self-reliant productive members of the host country's economy through projects that improved an area's overall level of development. Projects in integrated rural development, enhancement of primary health care systems, provision of water, establishment of schools, and road construction would benefit nationals of a country as well as refugees, and would be compatible with and supportive of national development plans. Where possible, refugee assistance would be more development-oriented than in the past while refugees would be included as an economic factor (often a burden but sometimes an advantage) in development programming. The process would be reflected in the involvement of line ministries and as an agenda item in World Bank Consultative Group and UNDP Roundtable meetings.

All parties were most anxious to shed the open-ended burden of caring for dependent refugees. The ICARA II conference itself was extremely important in that it served to raise the overall level of understanding of the problems and to promote a systematic dialogue about appropriate solutions.

The Concept of Additionality

One of the most difficult aspects of the ICARA II conference - one which nearly led to a lack of consensus on the Declaration and Program of Action - was the concept of additionality. African nations were anxious that donor support for ICARA II-type projects not displace development projects for their own nationals. The Africans also had in mind ICARA I where large sums of money were pledged but represented, for the most part, what donors were prepared to do anyway. This was translated into an understanding that ICARA II resources should be additional to donors' regular ongoing development activities. The USG view was that ICARA II-type activities, to the extent that they were new initiatives, would be by definition additional to what was being done in July 1984. Since the ICARA II process would continue as long as there were African refugees in need of durable solutions, and since budgets beyond 1985/86 had yet to even be formulated, it was meaningless to speak of "additionality." The Administration's position going into ICARA II was that significant sums of money, beyond what might reasonably be expected to be requested in future fiscal years, were unlikely to be made available in the prevailing budgetary climate. Rather, the high priority accorded to the ICARA II process would be reflected in the sort of development projects designed and in the allocation of appropriated funds.

Impact of the Drought/Famine Emergency

Delegates had barely returned home from Geneva when reports from Africa made the extent of the 1984/85 drought/famine excruciatingly clear. Not only were existing refugee populations affected as their crops failed, but also drought combined with civil strife to generate hundreds of thousands of new refugees. Emphasis understandably shifted from development to relief. ICARA II follow-up missions sent to Africa by some governments and international and voluntary organizations found too few host government officials able to dedicate sufficient time and energy to the design and feasibility of ICARA II-type projects. Private Voluntary Organizations (PVOs) who were to be tapped as ICARA II-type project implementors were overstretched by the drought/famine response. It has been a cruel irony that drought has intensified some of the very needs that the ICARA II process was designed to address while at the same time diverting resources from those needs.

The African Famine Relief and Recovery Supplemental Appropriations Act of FY 1985 provided that the Administration could use some of the funds appropriated for the Migration and Refugee Assistance (MRA) Appropriation for ICARA II-type projects "to address the immediate development needs created by refugees and displaced persons in Africa." Although the Department made considerable efforts to retool some of the ICARA II projects to make them responsive to the new needs and to fit the short-term recovery concept as envisaged by the legislation, all of the supplemental funds were ultimately required for pressing emergency needs. (N.B. It should be kept in mind that the ICARA II process is independent of the recent drought/famine and not limited to countries and sectors impacted by drought.) Had circumstances permitted, the Administration would have funded several ICARA II-type recovery projects, especially in Sudan and Somalia, from the FY 1985 supplemental funds. In fact, it became clear that the basic life-saving programs of the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC) would continue to be needed and would be costly through 1986. It was also reasonably clear that existing FY 1985 and anticipated FY 1986 refugee resources would not be sufficient to cover USG support at traditional levels. Therefore, the Administration decided that it had no choice but to give priority to emergency needs over recovery needs despite the logic of moving to recovery just as quickly as possible to escape the trap of continual short-term assistance.

Annex A shows how the FY 1985 Supplemental MRA funds have been obligated.

Progress to Date

The ICARA II picture is not entirely disheartening. The USG had already, following ICARA I, begun funding development-oriented refugee projects in Africa. Projects begun before the ICARA II conference are continuing today. A number of other projects have commenced since the conference. Some $71 million have been obligated/committed to date. Annex B lists projects by name, funding account, and fiscal year.

Steps have been taken to link refugee aid with development aid. Primary responsibility for follow-up at the United Nations level has been taken by an ICARA II unit within the United Nations Development Program (UNDP); and that unit is brokering inputs by others of the U.N. specialized agencies, for example, leading the International Labor Organization and the World Food Program to work together on a roads project in Tanzania. UNDP country programming in Africa for the next development cycle is specifically including refugees as an economic factor. At the most recent Consultative Group meeting held on aid to Somalia, the Government of Somalia included refugees on the agenda as part of its development strategy.

Within our own government, regular development assistance funds are being used in some cases to fund ICARA II-type projects. (See Annex B - ICARA II projects in Zaire) It is anticipated that some very successful ongoing ICARA II-type projects in Chad and Sudan will be expanded and folded into the regular bilateral development programs in those countries. For example, the Africare reforestation/agricultural development project in Abeche that was designed to help reintegrate returned refugees from Chad's civil war was expanded in 1985 to accommodate people displaced by drought in Chad; and it holds promise for helping to reintegrate those current refugees who may return from Sudan. In Somalia, a new PVO umbrella project may fund continued and new ICARA II-type projects since many of the PVOs operating in Somalia have been very involved with refugee assistance.

Future Plans

Given the deficit-reduction budgetary climate, the Administration sees few or no prospects for funding ICARA II-type projects from the MRA Appropriation in either FY 1986 or FY 1987. For 1986, Congressional earmarkings combined with Gramm-Rudman-Hollings cuts have put the MRA availability for African refugee assistance at $52.7 million. This is some $16 million below the traditional level of USG support given the requirements for life-saving and life-sustaining assistance as they are now estimated. Likewise, the austere level of the FY 1987 MRA request did not allow for specific funds for ICARA II-type projects.

The Administration will work creatively with the UNHCR as it revamps its programs during the coming months, to direct traditional programs and available resources to a more aggressive pursuit of durable solutions. For development-oriented refugee projects that are beyond the program and competence of the UNHCR the Administration will seek, as noted above, to fold such activities into regular development portfolios where possible. In addition, the Administration is urging some of the non-traditional sources of private funding such as USA for Africa and LiveAid Foundation/BandAid Trust to consider funding refugee recovery, ICARA II-type projects. And, American PVOs are being encouraged to once again focus on refugees as they design recovery and development projects for submission to the non-traditional funding sources.

The Administration remains committed to the ICARA II process. It holds promise for bringing down refugee assistance costs over the longer term through pushing refugees more rapidly toward self-reliance and through making it more possible for the host countries to donate their land and services to refugees. Helping to ease the burden that large numbers of refugees present for host countries and helping to capitalize on the advantages that refugee skills may represent is an increasingly key component of the international community's mandate to provide asylum and protection for refugees. It is important to avoid disillusionment that would lead to pressure for holding an ICARA III. Furthering the ICARA II process is very much in the self interest of the USG as the largest single contributor of refugee assistance.

ANNEX A

FY 1985 AFRICAN FAMINE RELIEF AND RECOVERY SUPPLEMENTAL

ICRC	1985 Africa Appeal	$ 6,000,000
UNHCR	1985 Africa Emergency Appeal	2,700,000
UNHCR	1986 Africa Emergency Appeal	3,500,000
U.N. Office of Emergency Opns. in Africa		300,000
TOTAL		$12,500,000

ANNEX B

ICARA II-TYPE PROJECTS FUNDED BY THE USG

Country	Project	($000)	Source	FY
Burundi	Health clinic construction	1,332.5	MRA	82
Chad	Reafforestation	3,000.0	ARSF	84
Chad	Small enterprise reactiv.	1,500.0	ARSF	84
Kenya/ Zambia	Vocational Education	157.4	MRA	86
Lesotho	2ndary school sci. labs	52.1	MRA	85
Rwanda	Integrated herding/agric	4,469.7	MRA	83
Rwanda	Reafforestation	2,500.0	ARSF	84
Somalia	Reafforestation	6,000.0	ARSF	83
Somalia	Refugee self-reliance	6,000.0	ARSF	83
Somalia	Settlement Design	650.0	ARSF	84
Somalia	Local settlement	4,000.0	ARSF	86*
Sudan	Port Sudan water	3,000.0	MRA	81-2
Sudan	Gedaref water design	750.0	ARSF	83
Sudan	Gedaref water	7,500.0	MRA	83
Sudan	Increase-Gedaref water	5,500.0	ARSF	84
Sudan	Increase-Gedaref water	600.0	ARSF	86*
Sudan	Integrated agr. devel.	5,109.4	MRA	82-5
Sudan	Self-reliance Vulnerables	821.2	MRA	83-4
Sudan	Reafforestation	4,550.0	ARSF	83
Sudan	Water drilling	32.4	MRA	85
Swaziland	School Construction	200.0	MRA	82
Uganda	Integrated agr. devel.	4,300.0	ARSF	86*
Zaire	Shaba water	2,250.0	DA	84
Zaire	Shaba roads	3,575.0	ARSF	84
Zaire	Shaba health	2,500.0	DA	84
Zambia	Aquaculture	729.0	MRA	84
TOTAL		$71,078.7		

* Anticipated

MRA - Migration and Refugee Assistance Account (State/RP)
ARSF - African Refugee Resettlement Services and Facilities Project (AID/AFR with RP input)
DA - Development Assistance (AID/AFR)

Friday, April 18, 1986.

INTERNATIONAL NARCOTICS

WITNESS

ANN B. WROBLESKI, ACTING ASSISTANT SECRETARY, BUREAU FOR INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE

Mr. Obey. The committee will now turn to the fiscal 1987 request for $65.5 million in funds for the International Narcotics Control Program. The fiscal year 1987 request is an increase of five million dollars above the 1986 level.

Before we begin, I ought to point out this committee last year took a particular interest in this program, the international narcotics program, and actually provided an additional $5 million above the administration's request in order to expand and improve the program.

Our primary witness today is Ann Wrobleski. I have a lot of questions I would like to ask you, but we have about 15 minutes, or fewer than that, before I have to shut it down. I hope you will not take the lack of questioning as indicating a lack of interest. I am simply running out of time.

We will insert your statement in the record. Why don't you make any remarks that you care to make.

Ms. Wrobleski. Thank you. I will try to keep my remarks very brief.

TESTIMONY

The Bureau of International Narcotics Matters offers testimony today in behalf of its fiscal year 1987 appropriation request of $65,445,000. We will confine our testimony to the actual request, with comparisons to the 1986 budget, and appropriate comments on the progress we believe has been made in international narcotics control, as well as the problems we continue to encounter.

The 1987 budget would be an increase of $5.4 million over our actual 1986 budget of $60,044,000. Thanks to you, Mr. Chairman, and your subcommittee, this 1986 budget included a transfer of $5 million from the Lebanon support fund which we have allocated to special emphasis narcotics enforcement programs in Latin America, in accord with the intent declared in your subcommittee report.

GRAMM-RUDMAN-HOLLINGS

Before discussing our 1987 spending objectives, let me briefly report to the committee on how we absorbed the 4.3 percent Gramm-Rudman-Hollings reduction in 1986.

In fiscal year 1986, INM was required to absorb $2,485,000 in reductions from a total of $62,529,000, resulting in a new 1986 budget level of $60,044,000. The fiscal year 1986 budget consists of new budget authority of $57.5 million and the additional appropriation of $5 million. This additional funding resulted in INM having a higher base for 1986 than would have occurred normally, given the Gramm-Rudman-Hollings reductions.

A chart is provided.

[The charts follow:]

FY 1986
International Narcotics Control Program

Fiscal Summary
($000)

	FY 1986 CS	G/R Cuts	Revised Budget
I. COUNTRY PROGRAM			
LATIN AMERICA			
Bolivia	$ 3,960	$ 310	$ 3,650
Brazil	750	60	690
Colombia	10,600	--	10,600
Ecuador	1,000 **	60	940
Mexico	10,100	--	10,100
Peru	4,350	339	4,011
Latin America Regional	7,000 *	--	7,000
TOTAL	37,760	769	36,991
EAST ASIA			
Burma	6,000	460	5,540
Thailand	3,900	300	3,600
East Asia Regional	300	25	275
TOTAL	10,200	785	9,415
SOUTHWEST ASIA			
Pakistan	3,770	290	3,480
Turkey	920	70	850
Southwest Asia Regional	100	10	90
TOTAL	4,790	370	4,420
TOTAL COUNTRY PROGRAM	52,750	1,924	50,826

* Includes a transfer-in of $5,000,000 from the Lebanon Economic Support Fund.

** Reflects increase presented by notification of program change to the Congress on 12/19/85 and effective 1/3/86.

FY 1986
International Narcotics Control Program

Fiscal Summary
($000)

	FY 1986 CS	G/R Cuts	Revised Budget
II. INTERNATIONAL ORGANIZATIONS			
UN Fund for Drug Abuse Control	$ 2,825	$ 220	$ 2,605
Colombo Plan	75	5	70
TOTAL	2,900	225	2,675
III. INTER-REGIONAL PROGRAMS			
Demand Reduction	400	30	370
DEA Training	2,320	175	2,145
Customs Training	1,230	100	1,130
INM EOP Training	300	20	280
TOTAL	4,250	325	3,925
IV. PROGRAM DEVELOPMENT AND SUPPORT	2,629	11	2,618
TOTAL INM PROGRAM	62,529 *	2,485	60,044

* Includes a transfer-in of $5,000,000 from the Lebanon Economic Support Fund.

Ms. **Wrobleski**. Note that cuts have been absorbed in all line item activities except Colombia, Mexico, the Latin America regional fund and program development and support fund. As a result of these reductions, INM will be required to delay implementation of certain program initiatives. For example, the $460,000 reduction in Burma will require the Bureau to postpone until fiscal year 1987 certain activities required to expand the fixed-wing aerial eradication program.

INM 1987 BUDGET

In 1987, we propose to allocate $55.2 million, or 84.3 percent of our total budget, to in-country programs. The balance will be spent on inter-regional programs, including our sponsorship of the successful training programs conducted by the Drug Enforcement Administration and U.S. Customs, as well as contributions to multilateral programs and to program development and support activities.

The country program total includes $37.9 million for Latin America, 68.7 percent of the country budget; $13.1 million for East Asia, or 23.7 percent; and $4.2 million for Southwest Asia, or 7.5 percent of the country budget.

The Department assigns its highest priority to reducing cultivation and production of illicit narcotics, through bans and eradication supported by interdiction and other enforcement programs operating as close to the source as possible. We note that in 1981, when we began our current strategy, only two countries were eradicating illicit narcotic crops. In 1985, 14 countries eradicated narcotic crops, moving us closer to our objective of having effective eradication campaigns operating simultaneously in all key growing sectors. Achieving this long-term objective is central to our goal of reducing the availability of imported illicit narcotics in the United States.

The proposed 1987 budget, therefore, includes a substantial increase in funds for narcotic crop eradication programs, building on new or expanded crop control efforts in key countries. Increased funding for enforcement efforts are projected where such activities support crop reduction efforts and/or will directly impact on the supply of illicit narcotics or precursor chemicals.

GOALS AND OBJECTIVES

At the outset of 1985, we set a number of strategic and tactical goals, and, as we stated in our annual report to Congress in February, we believe that in most cases we not only met but exceeded those objectives. The record shows that 1985 was a very productive year for program expansion and internationalization. We will do even more in 1986, during which our program priorities include solidifying the considerable gains in Colombia, sustaining the increasingly effective expansion of eradication programs in Thailand, Burma, Jamaica, Peru, Brazil, Ecuador, Panama, Belize and Pakistan, and intensifying our efforts to upgrade the programs in Mexico and Bolivia. The diplomatic priority will be on continuing the rapid internationalization of the global program, drawing heavily on such United Nations activities as the deliberations on a new trafficking convention and planning for the 1987 World Conference on Drugs to heighten awareness and participation by donor and source nations alike.

LATIN AMERICA

During 1986, we will launch the special emphasis Latin American regional enforcement program for which your committee sought an additional appropriation of $5 million. We concluded discussions with our embassy and the Government of Colombia on Tuesday and are agreed on creating an expanded air wing in Colombia to upgrade regional strike force capability throughout the Andean coca growing region.

We will utilize a good part of the $5 million, which we have budgeted under "Latin American regional programs", to purchase two transport helicopters on an immediate basis. These aircraft may be armed and armored, drawing upon the special account of $1 million in MAP funds which Congress made available to INM. We will grant the aircraft to the National Police of Colombia, under an agreement calling for Colombia, for the period of two years, to provide operational support for special enforcement initiatives in the region. As we have previously reported, there has been great progress in regional initiatives, thanks to the proficiency and capability of the Colombian National Police. The National Police supported a cross-border coca and cocaine interdiction program with Peru, which led to a series of interdiction successes by Peru in 1985.

Colombia also participated in a cross-border coca eradication program with Ecuador. Peru, Ecuador and other governments in the area critically need air mobility, and we think combining air mobility with Colombian expertise affords the best package we can provide to the other governments in the coca belt. The Colombian National Police will be responsible for drawing up collaborative plans with other governments in the region. We are also allocating a portion of the 1986 INM budget for maintenance and operation of these aircraft.

The balance of the supplemental funding which your committee provided will be used for other regional initiatives. As you know, our Latin American regional fund provides the resources for the eradication program in Jamaica, Belize and Panama.

For 1987, the continuing prominence of Latin America and the Caribbean in the production and export of illicit narcotics to the United States again compels us to allocate the major share of funding (68 percent of the country budget and 59 percent of total budget) to that region. Discounting the $5 million transfer—in from 1986 totals, we propose to increase funding for the Latin American region by about $6 million.

The breakthrough on aerial eradication of marijuana in Colombia has not only resulted in a reduction of 67 percent in gross cultivation, but is part of a total national police effort that has resulted in a strong interdiction campaign with good results in seizures of contraband, laboratories and precursor chemicals. Importantly, Colombia has been testing herbicides that could be effective in comprehensive programs to eliminate coca bushes. Thus, we are not only proposing to center our regional air strike capability in Colombia, but to expand eradication operations through increased funding in 1987.

The 1987 budget presupposes a full-fledged aerial campaign against coca as well as marijuana. Indeed our 1987 budget projects increased funding for eradication in all of our program countries, as well as Jamaica, Panama and Belize which are funded from the regional account. The budget includes support for improvement of the Mexican eradication campaigns against opium poppy and marijuana. We have increased 1986 funding for Ecuador and in 1987 propose to support an aerial eradication program against coca in Ecuador. We plan to expand manual coca eradication in Peru, including action on a second front. And we are hopeful of a sustained eradication program in Bolivia.

Enforcement assistance will continue to play a significant role in the Peruvian and Bolivian programs, where there is a parallel need to provide security for the narcotics control efforts. A significant increase in interdiction assistance is provided under the regional account. Modest amounts are included in most programs to provide technical assistance for drug abuse prevention and education projects.

SOUTHEAST ASIA

In Southeast Asia, our 1987 budget request contemplates continuation and expansion of the vital Burmese aerial eradication campaign. More than 33,000 hectares of opium poppy have been reported destroyed by the Burmese Government this year. Funds are included to procure additional fixed and rotary wing transport aircraft which will enable the Burmese Government to carry out operations aimed at narcotics trafficking groups, primarily the Burmese Communist Party and warlord organizations operating on the border with Thailand. Support will also be provided to improve the capability of the Burmese police to interdict narcotics trafficking.

The Royal Thai Government has adopted a policy of eradicating opium poppy in areas where farmers have benefitted from development assistance and are able to market alternative crops or where farmers have refused to participate in alternative crop programs. Our annual report projects that the Thai could significantly reduce opium cultivation in 1986, and notes a Thai projection that so-called commercial opium production could be eliminated in the next five years.

Increased funding in 1987 will assist the Thai Government in providing "bridge" assistance to farmers who agree not to cultivate poppy or whose crop is eradicated. Funds are also included to continue support to Thai paramilitary forces interdicting trafficking and refining operations along the Thai-Burma border, and to enhance the narcotics investigation capabilities of Thai police units.

SOUTHWEST ASIA

In Southwest Asia, INM plans in 1987 to continue support for the establishment of new Pakistani joint narcotics task force units and special drug enforcement units of Pakistani customs, while maintaining support for outreach activities to help farmers switch to other crops in opium growing areas where major development assistance projects do not exist. INM will also continue support for the enforcement efforts of the Turkish National Police and the Jandarma.

UNITED NATIONS

The 1987 budget will fund an increase of $295,000 in the U.S. contribution to the United Nations Fund for Drug Abuse Control (UNFDAC) which, among other activities, funds coca control related projects in South America, and coordinates donor support for the Special Development and Enforcement Plan in Pakistan. Funding will also support Colombo Plan regional narcotics control activities, and expanded drug education and prevention programs in selected countries.

TRAINING

Finally, funding is provided to support the international narcotics enforcement training administered by the Drug Enforcement Administration and U.S. Customs. An estimated 2,300 individuals will be trained through 17 specialized basic and advance-level courses for foreign law enforcement personnel.

SUMMARY

In conclusion, let me draw the committee's attention again to the progress noted in our annual report. These are substantive gains, and the prospects for continued advancement in 1986 are genuinely realizable. But let me also state that the drug situation remains severe. Production still outpaces demand. But there is a significant change occurring and much of our hopes ride on that change. Drug abuse has spread to many drug producing and trafficking countries, and narcotics trafficking organizations in some countries are so powerful that they pose a national security threat to the legitimate government. Narcotics-related violence is on the increase.

Narcotics trafficking is a clear and present danger. The change is that these other nations now realize that the danger is universal, that they too stand in harm's way. With that realization, we are finally beginning to work together, as an international community progressing toward common goals.

Thank you.

[The prepared statement of Ann B. Wrobleski follows:]

Testimony
Acting Assistant Secretary Ann B. Wrobleski
Bureau of International Narcotics Matters
Department of State
to
Committee on Appropriations
House of Representatives
April 16, 1986

Mr. Chairman:

The Bureau of International Narcotics Matters offers testimony today in behalf of its Fiscal Year 1987 appropriation request of $65,445,000. We will confine our testimony to the actual request, with comparisons to the 1986 budget, and appropriate comments on the progress we believe has been made in international narcotics control, as well as the problems we continue to encounter.

The 1987 budget would be an increase of $5.4 million over our actual 1986 budget of $60,044,000. Thanks to you, Mr. Chairman and your Subcommittee, this 1986 budget included a transfer of $5 million from the Lebanon Support Fund which we have allocated to special emphasis narcotics enforcement programs in Latin America, in accord with the intent declared in your Subcommittee report.

Before discussing our 1987 spending objectives, let me briefly report to the Committee on how we absorbed the 4.3 percent Gramm-Rudman-Hollings reduction in 1986.

In FY 1986, INM was required to absorb $2,485,000 in reductions from a total of $62,529,000, resulting in a new 1986 budget level of $60,044,000. The FY 1986 budget consists of new budget authority of $57.5 million and the additional appropriation of $5 million. This additional funding resulted in INM having a higher base for 1986 than would have occurred normally, given the Gramm-Rudman-Hollings reductions. A chart is provided. Note that cuts have been absorbed in all line item activities except Colombia, Mexico, Latin America regional and central program and development. As a result of these reductions, INM will be required to delay implementation of certain program initiatives. For example, the $460,000 reduction in Burma will require the Bureau to postpone until FY 1987 certain activities required to expand the fixed-wing aerial eradication program.

In 1987, we propose to allocate $55.2 million, or 84.3 percent of our total budget, to in-country programs. The balance will be spent on inter-regional programs, including our sponsorship of the successful training programs conducted by the Drug Enforcement Administration and U.S. Customs, as well as contributions to multilateral programs and to program development and support activities.

The country program total includes $37.9 million for Latin America, 68.7 percent of the country budget; $13.1 million for East Asia, or 23.7 percent; and $4.2 million for Southwest Asia, or 7.5 percent of the country budget.

The Department assigns its highest priority to reducing cultivation and production of illicit narcotics, through bans and eradication supported by interdiction and other enforcement programs operating as close to the source as possible. We note that, in 1981, when we began our current strategy, only two countries were eradicating illicit narcotic crops. In 1985, 14 countries eradicated narcotic crops, moving us closer to our objective of having effective eradication campaigns operating simultaneously in all key growing sectors. Achieving this long-term objective is central to our goal of reducing the availability of imported illicit narcotics in the United States.

The proposed 1987 budget therefore includes a substantial increase in funds for narcotic crop eradication programs, building on new or expanded crop control efforts in key countries. Increased funding for enforcement efforts are projected where such activities support crop reduction efforts and/or will directly impact on the supply of illicit narcotics or precursor chemicals.

At the outset of 1985, we set a number of strategic and tactical goals, and, as we stated in our annual report to Congress in February, we believe that in most cases we not only met but exceeded those objectives. The record shows that 1985 was a very productive year for program expansion and internationalization. We will do even more in 1986, during which our program priorities include solidifying the considerable gains in Colombia, sustaining the increasingly effective expansion of eradication programs in Thailand, Burma, Jamaica, Peru, Brazil, Ecuador, Panama, Belize and Pakistan, and intensifying our efforts to upgrade the programs in Mexico and Bolivia. The diplomatic priority will be on continuing the rapid internationalization of the global program, drawing heavily on such United Nations activities as the deliberations on a new trafficking convention and planning for the 1987 World Conference on Drugs to heighten awareness and participation by donor and source nations alike.

During 1986, we will launch the special emphasis Latin American regional enforcement program for which your Committee sought an additional appropriation of $5 million. We concluded discussions with our Embassy and the Government of Colombia on Tuesday, and are agreed on creating an expanded air wing in Colombia to upgrade regional strike force capability throughout the Andean coca growing region. We will utilize a good part of the $5 million, which we have budgeted under "Latin American regional programs," to purchase two transport helicopters on an immediate basis. These aircraft may be armed and armored, drawing upon the special account of $1 million in MAP funds which Congress made available to INM. We will grant the aircraft to the National Police of Colombia, under an agreement calling for Colombia, for a period of two years, to provide operational support for special enforcement initiatives in the region. As we have previously reported, there has been great progress in regional initiatives, thanks to the proficiency and capability of the Colombian National Police. The National Police supported a cross-border coca and cocaine interdiction program with Peru, which led to a series of interdiction successes by Peru in 1985. Colombia also participated in a cross-border coca eradication program with Ecuador. Peru, Ecuador and other governments in the area critically need air mobility, and we think combining air mobility with Colombian expertise affords the best package we can provide to the other governments in the coca belt. The Colombian National Police will be responsible for drawing up collaborative plans with other governments in the region. We are also allocating a portion of the 1986 INM budget for maintenance and operation of these aircraft. The balance of the supplemental funding which your Comnmittee provided will be used for other regional initiatives. As you know, our Latin American regional fund provides the resources for the eradication programs in Jamaica, Belize and Panama.

For 1987, the continuing prominence of Latin America and the Caribbean in the production and export of illicit narcotics to the United States again compels us to allocate the major share of funding (68 percent of the country budget and 59 percent of total budget) to that region. Discounting the $5 million transfer-in from 1986 totals, we propose to increase funding for the Latin American region by about $6 million.

The breakthrough on aerial eradication of marijuana in Colombia has not only resulted in a reduction of 67 percent in gross cultivation, but is part of a total National Police effort that has resulted in a strong interdiction campaign with good results in seizures of contraband, laboratories and precursor chemicals. Importantly, Colombia has been testing herbicides that could be effective in comprehensive programs to eliminate coca bushes. Thus, we are not only proposing to center our regional air strike capability in Colombia, but to expand eradication operations through increased funding in 1987.

The 1987 budget presupposes a full-fledged aerial campaign against coca as well as marijuana. Indeed, our 1987 budget projects increased funding for eradication in all of our program countries, as well as Jamaica, Panama and Belize which are funded from the regional account. The budget includes support for improvement of the Mexican eradication campaigns against opium poppy and marijuana. We have increased 1986 funding for Ecuador and in 1987 propose to support an aerial eradication program against coca in Ecuador. We plan to expand manual coca eradication in Peru, including action on a second front. And, we are hopeful of a sustained eradication program in Bolivia.

Enforcement assistance will continue to play a significant role in the Peruvian and Bolivian programs, where there is a parallel need to provide security for the narcotics control efforts. A significant increase in interdiction assistance is provided under the regional account. Modest amounts are included in most programs to provide technical assistance for drug abuse prevention and education projects.

In Southeast Asia, our 1987 budget request contemplates continuation and expansion of the vital Burmese aerial eradication campaign. More than 33,000 hectares of opium poppy have been reported destroyed by the Burmese Government this year. Funds are included to procure additional fixed and rotary wing transport aircraft which will enable the Burmese government to carry out operations aimed at narcotics trafficking groups, primarily the Burmese Communist Party and warlord organizations operating on the border with Thailand. Support will also be provided to improve the capability of the Burmese police to interdict narcotics trafficking.

The Royal Thai Government has adopted a policy of eradicating opium poppy in areas where farmers have benefitted from development assistance and are able to market alternative crops, or where farmers have refused to participate in alternative crop programs. Our annual report projects that the Thai could significantly reduce opium cultivation in 1986, and notes a Thai projection that so-called commercial opium production could be eliminated in the next five years. Increased funding in 1987 will assist the Thai Government in providing "bridge" assistance to farmers who agree not to cultivate poppy, or whose crop is eradicated. Funds are also included to continue support to Thai paramilitary forces interdicting trafficking and refining operations along the Thai-Burma border, and to enhance the narcotics investigation capabilities of Thai police units.

In Southwest Asia, INM plans in 1987 to continue support for the establishment of new Pakistani joint narcotics task force units and special drug enforcement units of Pakistani customs, while maintaining support for outreach activities to help farmers switch to other crops in opium growing areas where major development assistance projects do not exist. INM will also continue support for the enforcement efforts of the Turkish National Police and the Jandarma.

The 1987 budget will fund an increase of $295,000 in the U.S. contribution to the United Nations Fund for Drug Abuse Control (UNFDAC) which, among other activities, funds coca control related projects in South America, and coordinates donor support for the Special Development and Enforcement Plan in Pakistan. Funding will also support Colombo Plan regional narcotics control activities, and expanded drug education and prevention programs in selected countries.

Finally, funding is provided to support the international narcotics enforcement training administered by the Drug Enforcement Administration and U.S. Customs. An estimated 2,300 individuals will be trained through 17 specialized basic and advance-level courses for foreign law enforcement personnel.

In conclusion, let me draw the Committee's attention again to the progress noted in our annual report. These are substantive gains, and the prospects for continued advancement in 1986 are genuinely realizable. But, let me also state that the drug situation remains severe. Production still outpaces demand. But, there is a significant change occurring and much of our hopes ride on that change. Drug abuse has spread to many drug producing and trafficking countries, and narcotics trafficking organizations in some countries are so powerful that they pose a national security threat to the legitimate government. Narcotics-related violence is on the increase.

Narcotics trafficking is a clear and present danger. The change is that these other nations now realize that the danger is universal, that they too stand in harm's way. With that realization, we are finally beginning to work together, as an international community progressing toward common goals.

End

SUCCESS OF NARCOTICS CONTROL EFFORTS

Mr. **Obey**. Thank you. I have to say I think that your statement expresses an optimism about the problem that not many people with whom I talk seem to share. The argument made to me many times is that we are having a minimal, at best, effect on drug traffic, minimal effect on drugs entering into the United States, and to the extent we do have an effect, we simply raise the cost of that item, the price of it, and, therefore, in the end those involved in the drug trade don't suffer any economic hardship. They may be pushing less in volume but getting just as much for it, so their pockets are still full.

It has been suggested to me by a number of sources who are involved and have expertise in the area we are having so little success we are chasing our tail, but with no effective results. How would you respond to those assertions?

Ms. **Wrobleski**. I would strongly disagree. I think if you look back over 1985, which was a year of real program expansion, you will see some significant successes. Colombia, in 1983——

COLOMBIA

Mr. **Obey**. That is where I wanted to lead to. You indicated a breakthrough on aerial eradication of marijuana in Colombia has resulted in a gross reduction of 67 percent in cultivation. What about net?

Ms. **Wrobleski**. The point we were trying to make is the marijuana cultivation traditional growing areas was reduced, according to our aerial surveys, between 80 and 85 percent. When you look at the total picture, it brings you to 67 percent. I can give you the net figures for Colombia. In 1984, Colombia was producing between 4,000 and 7,000 metric tons, and in 1985, they produced between 2,500 and 3,000.

Mr. **Obey**. How many under cultivation for each of the drugs in question in Colombia?

Ms. **Wrobleski**. In Colombia?

Mr. **Obey**. Yes. Last year we were given numbers for a number of countries which demonstrated that the amount of hectares under new cultivation were larger than the number of hectares put out of cultivation.

Ms. **Wrobleski**. We looked at coca, hectares cultivated in 1984, 15,500. We expect it to be down in 1986 to 14,000. And that is based on again a manual eradication campaign. We are close, but we are not yet there, on developing a herbicide that could be used for a chemical eradication program.

COUNTRY STATISTICS

Mr. **Obey**. I might ask you to supply for the record for each drug for each country how many hectares we feel we put out of circulation and how many new were put into circulation.

Ms. **Wrobleski**. We can do that.

[The information follows:]

NARCOTIC CROPS: HECTARAGE CULTIVATED/ERADICATED

Chairman Obey asked INM to supply data on how many hectares, by drug and country, have been put out of circulation. The following information, abstracted from the 1986 International Narcotics Control Strategy Report, shows that in the vital category of net amounts available for illicit production, there has been year to year improvement in most countries. The notable exceptions among countries where the United States supports control programs are Bolivia, Mexico and Pakistan, and of course Iran, Afghanistan and Laos where the political situations do not permit control programs.

	1985	1985		1986	1986		
Country	Cultvte	Eradicate	Net	Estimate	Eradicate	Net	Change
Cannabis							
Belize	1,223	512	711	1,285	1,092	193	-518
Colombia	8,000	6,000	2,000	5,000	4,500	500	-1500
CostaRica	136	45	91	139	46	93	+2
Mexico	5,863	2,945	2,918	N/Avail			?
Panama	500	210	290	400	300	100	-190
Jamaica	2,365	955	1,410	2,365	1,065	1,300	-345
Opium							
Burma	71,000	9,551	61,449	75,000	15,000	56,000	-5449
Laos	11,000			11,000			0
Thailand	9,654	517	9,137	6,325	2,800	3,525	-5612
Afghan	44,400			44,400			0
Iran	44,400			44,400			0
Pakistan	1,878	90	1,788	7,490	2,956	4,534	+2746
Mexico	6,107	2,945	3,162	N/Avail			
Coca							
Bolivia	34,250	30	34,220	32,243	N/Avail		
Colombia	15,500	2,000	13,500	14,000	10,000	4,000	-6000
Ecuador	2,886	464	2,422	2,422	1,000	1,422	-1000
Peru	100,000	4,823	95,177	96,831	6,000	90,831	-6000

End

MEXICO

Mr. **Obey**. Mexico. They, to be polite about it, have a lousy record in attacking corruption, in shutting down supplies of drugs coming into this country. They are the second largest foreign supplier of marijuana, at least that is my understanding, to the United States, and a primary source of heroin in the Southwest United States. The degree of corruption in that system is well known.

As you know, it evidently appears a high ranking police official participated in the torture of an American official. What are we doing with Mexico, what can you do with Mexico? Are they so corrupt that it, a la Marcos, is really beyond reaching to an effective degree? Is corruption so rampant and are the dollars to be made so high that we are not going to be able to see significant progress with Mexico?

Ms. **Wrobleski**. I don't think so, Mr. Chairman. We had a very effective eradication program in Mexico in the late 1970s and early 1980s. I would agree with the chairman, there has been a falling off of that campaign, as we stated in our annual report this year. I think Mexico is perhaps the major narcotics challenge we face over the next few years. In regard to corruption, I think none of it can be excused, but some of it can be attributed to a decline in Mexico's economy. It is not an excuse, but it is a factor.

In terms of eradication, I would not say I am optimistic, but three things have happened since we submitted our report in February which make me hopeful, and one is completion of an aerial survey of the opium growing region of Mexico which will give us a base line so that we can go to the Mexicans and talk together about where the opium is.

The second thing came about during the meetings with the Attorney General this past week. Attorney Generals Meese and Garcia Ramirez were in agreement to form a data base which would include the aerial survey but also feed into it eradication figures. The verification campaign is now running an accuracy record of 80 percent. That means when a pilot reports a field sprayed and we go out and look at that field, 80 percent of the time the pilots are right—the fields were effectively sprayed. Eighty percent is not 100 percent, but it is better than 40 percent, which is what it was last fall.

The third thing we have seen is the great cooperation of the Mexicans since October in letting American Thrush aircraft and American pilots spray freely in the tri-state opium growing area in Northern Mexico. We are encouraged by that. I am not saying Mexico is no problem, believe me. I am not telling you my colleagues in the enforcement community are not concerned. I think with continuing pressure we may be seeing the end of the tunnel in terms of getting Mexican cooperation and agreement on making improvements needed in the eradication program.

Mr. **Obey**. If you can talk about the end of the tunnel, I really think, and obviously everybody has a right to their own view, but I really think that language like that is very, very misleading. What percentage—of all of the drugs from all sources which people try to get into the United States, what percentage do you think we actually—what would your public estimate be of the percentage of that total amount that we actually interdict successfully? Would it be above five percent?

Ms. **Wrobleski**. I think the figure that is usually thrown around, and again I don't know an accurate figure is possible, the figure generally thrown out is 10 to 15 percent.

Mr. **Obey**. That is much, much higher than my judgment would be.

Ms. **Wrobleski**. I cannot give you a professional opinion.

Mr. **Obey**. I would like you to check that out and for the record tell the committee whether your judgment, after you checked it out, is that it is above five percent.

Ms. **Wrobleski**. I will do that, sir.

[The information follows:]

RATES OF INTERDICTION

There is no official estimate of the percent of drugs seized, nationally or worldwide. The National Narcotics Intelligence Consumers Committee (NNICC), of which State's Bureau of International Narcotics Matters is a member, includes data on seizures in its annual narcotics estimate, and State reports seizures on a country-by-country basis in the annual International Narcotics Control Strategy Report.

Various law enforcement officials have used an unofficial range of 10 to 25 percent as estimates of the amount of drugs seized entering the United States. The wide range reflects the continuing problem Federal agencies have in combining data from diverse sources, e.g., the agencies have been using different accounting methods, and numbers, even in common categories, cannot be added to arrive at aggregates.

Still, there are reliable data indicating a strong interdiction effort by U.S. agencies, here and abroad.

For example, the National Drug Enforcement Policy Board's progress report for 1984-85, provides separate data tables for U.S. Customs and Coast Guard. In 1985, Customs seized 2,537 pounds of heroin, 111,288 pounds of cocaine, 17.4 million pounds of marijuana, and 143,839 pounds of hashish. At the same time, the Coast Guard was seizing 7,917 pounds of cocaine, 14.4 million pounds of marijuana, and 64,542 pounds of hashish.

One way of looking at these data is to consider that the net amount of marijuana available for consumption in the United States could have more than doubled were it not for these seizures.

Some 1984 DEA data are also illustrative of both the scope of the interdiction effort and the problems of comparative reporting. Note that the DEA data on seizures (from the 1985 NNICC report, which will be updated this summer) include U.S. seizures, seizures in transit and losses. The base is the amount U.S. analysts believe was available for export to the U.S. from foreign sources.

Drug type	Total available (metric tons)	Amount seized	Percent seized [1]
Cannabis	16,050	5,290	32.95
Cocaine	176	39	22.15

[1] Again, these figures include U.S. seizures, seizures in transit and other losses following cultivation. It is not known to what extent these DEA data in the NNICC report overlap with Customs and/or Coast Guard seizure reports (e.g., for marijuana). The National Drug Enforcement Policy Board has recently made recommendations to achieve uniformity in seizure reporting.

Because only about 60 metric tons of the 1,700 to 1,900 metric tons of illict opium produced worldwide are used to produce heroin for the U.S. market, drafting a similar table for opium/heroin products is more difficult.

LAUNDERING OF DRUG MONEY

Mr. **Obey**. Laundering of money is supposedly a very important factor in drug traffic operations. One would think—it is obvious, I guess, if you are laundering the money, you have got banks involved, including the United States banks. What kind of progress are we making in dealing with that problem?

Ms. **Wrobleski**. Again, sir, I would defer to my colleagues from the Justice Department. I will be happy to get an answer for you.

We have compiled a list with Justice of countries we would like to highlight for money laundering talks. We will include that list.

[The information follows:]

TREATIES ON EXTRADITION AND MUTUAL LEGAL ASSISTANCE

State and Justice negotiate extradition treaties with source and transit nations, as well as agreements on sharing financial information that can help break-up money-laundering schemes. The United States has entered into Mutual Legal Assistance Treaties with Switzerland, the Netherlands, Turkey and Italy; Senate approved treaties with Morocco and Colombia have not been ratified by those governments. An MLAT with Canada has not yet been ratified and a new agreement has just been signed with Thailand. MLAT negotiations are underway with the Bahamas, Jamaica, Cayman Islands, Germany, Israel and Sweden, and U.S. officials are exploring MLAT possibilities with Panama, Australia, Austria and the United Kingdom. The United States has entered into extradition treaties with 103 countries, including relatively recent agreements with such countries as Mexico, Colombia, Turkey, Italy and the Netherlands, and the two most recent agreements with Thailand and Jamaica. Particular emphasis in revising extradition treaties is on overcoming the refusal of many countries to extradite their nationals, and broadening the range of narcotics offenses covered under the treaties.

The following priorities have been proposed in the forthcoming national strategy being prepared by the National Drug Enforcement Policy Board:

Priority: seek new and/or enhanced mutual legal assistance treaties, with priority consideration of MLATs given to new/enhanced treaties with: Cayman Islands, Bahamas, Panama, Caribbean colonies of the United Kingdom, Jamaica, Mexico, United Kingdom, Austria, France, Antigua, Australia, Hong Kong, Malaysia, Spain and Brazil, Bolivia, Nigeria and Pakistan.

Priority: seek new and/or enhanced extradition treaties with: Bahamas, Pakistan, Nigeria, India, Malaysia, Bolivia, Venezuela, Austria, Australia and Israel.

QUESTION FOR THE RECORD

Question. According to the Narcotics Intelligence Estimate, Mexico has become the second largest foreign supplier of marijuana to the United States, and the primary source for heroin in the Midwest and Southwest U.S. In this regard, press reports suggest that corruption of Mexican officials is widespread.

In what other countries does corruption of government officials and their involvement in the international drug trade present obstacles to U.S. international narcotic drug control programs and efforts?

The laundering of money, and thus the at least tacit involvement of U.S. bankers, is considered an important factor in international drug trafficking operations. What progress can be expected in FY 87 in curtailing the laundering and flow of international narcodollars? Are stronger criminal penalties required to hinder the laundering of this money?

Answer. Official corruption is a present danger in virtually all source and transit countries, especially at the lower levels of police and customs agencies, and is always a threat to blocking or interrupting control programs. The phenomenon has been more acute in Latin America in recent years than in Asia.

We are providing the Committee with a special report on our efforts to increase our mutual legal assistance and extradition treaties, the former being the foundation for our efforts to counter the money-laundering tactics of narcotics traffickers. Increasingly, the U.S. Government sees money laundering enforcement efforts as a major key to our success in destabilizing narcotics organizations, and thus this enforcement activity receives increasingly higher priorities.

COUNTRY TARGETS

Mr. **Obey**. Last year—I am going to have to put a lot of these in the record. I have got some administration people waiting in my office right now. Let me simply ask, during last year's testimony we were told a number of countries were not meeting targets included in the State Department's annual report. What countries this year failed to meet the targets provided in the 1985 report?

Ms. WROBLESKI. I am not sure I understand your question. Do you mean what countries are not performing?

Mr. OBEY. We were told that in 1985, you made an estimate—not you, but your agency made an estimate of what each country would accomplish that year.

Ms. WROBLESKI. I see what you are saying.

Mr. OBEY. My question is, which list is shorter, the countries where targets have been met or the countries where they haven't been met?

Ms. WROBLESKI. I would say the continuing disappointment is, of course, Bolivia. As you know, it is a two-part sanction. The first part of the sanction has been met. We have five months to meet the second requirement for 1986. And I think it is premature to say Bolivians will not meet the requirement or at least make progress towards it.

Mr. OBEY. How about Peru?

Ms. WROBLESKI. The sanction on Peru had to do with Peruvians pulling together a control plan, and we are preparing documentation which would provide certification of the fact Peru—indications they are pulling together a plan to control the country.

Mr. OBEY. I will just have to put the whole series of questions into the record.

NARCOTICS QUESTIONS

Question. The only long term answer to the drug problem in the US may be demand reduction. The Federal Government and state and local governments are already doing their best to educate young people to the dangers of drug use. Hoeever, during the past few years, there have been reports that drug use in the US might be declining as the baby boom generation—and the entire US population—ages. According to this view, demographics may be working in our favor. But, now I read reports in the newsmagazines and elsewhere that cocaine addiction is growing very, very rapidly. The Selection Committee on Narcotics reported in March that 150 tons of cocaine will flood the US this year, a six-fold increase in as many years. Could you assess the current situation?

Answer. The National Narcotics Intelligence Consumers Committee, of which State is a member, estimates that cocaine consumption in the US was in the range of 55-76 metric tons in 1984, the last official estimate available. An estimated 33-60 metric tons were consumed in 1981. The NNICC Committee further estimates that the total amount of illicit cocaine available for export to the United States in 1984 was 71-137 metric tons. Actual consumption is though to be about half of the illicit cocaine available, the remainder being seized or otherwise lost to the market. We must simultaneously reduce demand and supply, the latter being INM's areas of responsibility. We are following closely Colombia's search for a chemical eradication process to destroy coca bushes, and note the steady progress of manual eradication of coca in Peru; we have also registered our disappointment with the pace of coca eradication in Bolivia. Barring a breakthrough in evironmentally safe chemical eradication, we are faced with several years of high cost, labor intensive manual destruction of coca fields.

Question. Much of the Pakistan heroin that is trafficked to Western Europe and the US transits India. Reportedly, the heroin is smuggled across the border into Punjab, from which it makes its way, probably by bullock cart, to Delhi or Bombay, and then is smuggled out to the West by plane. There have also been reports that the Indian addict population is growing by leaps and bounds. Has the State Department taken any steps to encourage India and Pakistan to cooperate to control drug smuggling? Could the US support such a cooperative effort with funds, equipment and training? Have other Western governments or the UN offered to support such Indo-Pak cooperation?

Answer. We have no official statistics but press reports from India indicate that the addict population is enlarging in tandem with India's growth as a drug trafficking center. A significant increase in its addict population was one factor prompting India to toughen its narcotics control laws in 1985. The United States has been involved in supporting narcotics control programs in Pakistan since 1981. In January 1986, we established a joint narcotics working group with India to facilitate cooperation. We have also encouraged Pakistan and India to cooperate on narcotics control. We are hopeful that the decision last December by the South Asia Association for Regional Cooperation including narcotics cooperation among its major cooperative objectives will assist in developing this Indo-Pak dialogue. The US and UN support Pakistani control programs, and we provide training and other assistance to India. While virtually all donor assistance in the narcotics field is country specific, we believe unilateral and multilateral assistance which has among its objectives the promotion of regional cooperation is also appropriate.

Question. As stated by the Assistant Secretary of State for Inter-American Affairs, Elliott Abrams, a recent address before the Council of Foreign Relations, ongoing efforts and expenditures of funds have not reduced the flow of cocaine to the United States. Based on recent experience and the information and resources available, is a significant reduction of the amount of cocaine available on the streets of the United States a realistic goal for the next five to seven years? What resources are required to achieve this goal?

Answer. Several problems must be addressed simultaneously in any strategy for reducing the amount of cocaine flowing into the United States. The estimate is that the Andean countries will produce a net of 127,453 metric tons of coca leaf in 1986. While this is a reduction of more than 13,000 m/tons below 1985, the salient factor is that this much leaf, if it were all converted, could produce between 200 and 300 metric tons of cocaine—agaisnt an estimated 75 tons consumed in the United States and 20 tons in Europe. Although much of the gross leaf production is lost through inefficiency and waste (estimates range from 10 to 50 percent) and much of the raw leaf and coca paste are increasingly consumed in South America, where the basuco problem is burgeoning, we must attack a production problem much larger than the supply needed to produce cocaine for the U.S. market. At the same time, we are helping Andean governments overcome economic resistance to coca eradiction; in depressed economies, the hard cash earnings for coca production have been more attractive than government counteroffers. The challenge is to make the threat of eradication credible and this takes political will by these governments—the will to address political and even terrorist opposition, and to impose the rule of law in areas where government control has traditionally been weak. Colombia and Ecuador have shown great political will; Peru is expanding its eradication program, despite a depressed economy and violent opposition from traffickers and terrorists. Bolivia has begun an enforcement program but has not yet mounted the kind of eradication effort necessary.

Tactically, the need is for more comprehensive methods of eradication. The manual eradication programs are small viewed against the need to take out a substantial portion of the abundant acreage now committed to coca cultivation. It is difficult to estimate the cost of an effective program, because (a) it will require continuation of the twin tracks of development assistance and narcotics assistance, at least in Peru and Bolivia, (b) expanding to a coca eradication program using herbicides will require additional spray and support aircraft, (c) there is need to beef up the interdiction efforts across the board. The increase in INM's budget for coca control could be $10-20 million over two to three years.

Question. what is the prognosis for other drugs—heroin and marijuana for example—and what resources would be required to effectively control their import?

Answer. Real progress is being made in Burma and Thailand in reducing opium production in the Golden Triangle, a significant achievement given Burma's high level of production. But, Laotian production has apparently increased, and indigenous demand in Southeast Asia for opium products remains exceedingly high. Given the parallel emphasis on controlling the flow of precursor chemicals needed for heroin processing, and intensified enforcement against trafficking, the prospects for preventing increased heroin exports from this sector to the United States are good.

Increased opium production in Southwest Asia in 1986, especially in Pakistan, is disturbing but intelligence estimates are that the increase is largely driven by expanding domestic demand within that region, abetted by higher prices, unexpectedly good rainfall, and an unanticipated laxity in enforcement that occurred during the changeover in the Pakistani government. The civilian government has given strong assurances that this increase is largely a one-year abberation, and that the heretofore successful eradication program will resume in the 1986–87 season. Thus, at this time, our threat assessment for Southwest Asia is not changed, and long-term prospects are good for reducing Pakistani opium cultivation, and improving controls on trafficking in Pakistan and India. The production problem in Iran and Afghanistan is currently beyond our control, so we are intensifying the parallel emphasis on reducing heroin refining in Pakistan and Turkey. There has been a shift to heroin refining in Lebanon's Bekaa Valley which also presents control problems to us.

Mexico is a unique threat, for both heroin and marijuana, not only because opium and cannabis production increased in 1985, but, because of the corruption and inefficiency which led to a deterioration in this once-successful program. Good progress has bene made in fixing the strategic and tactical problems in the eradication program, and there is continued demonstration of the political will at the highest levels of the Mexican government, but we continue to have doubts about the efficacy of the enforcement program, where the levels of arrests, interdiction and other seizures must rise. The continuing dialogue between the Attorneys General, by the Embassy, and by State and Justice here with Mexican officials, has improvement of both the eradication and enforcement programs as high priorities.

Fortunately, the marijuana eradication programs in Colombia, Jamaica, Panama, Brazil, Costa Rica and Belize continue to make good progress, and the forecast is for reduced production in these source countries which will be reflected in decreased imports from these sources to the United States. The challenge in marijuana is to contain attempts to provide imports from other sources, like Brazil, Venezuela, Thailand, Pakistan and elsewhere.

There is need for at least one additional Thrush aircraft for spraying in Burma, and a prospective need for aircraft in Pakistan where we are exploring a change in eradication tactics. As the Mexican and Colombian eradication programs expand, it will be difficult to continue deploying spray and support aircraft to the peripheral areas, and we will either have to base more aircraft in these key countries, or assign aircraft to some countries in these peripheral areas. We should immediately provide helicopters to Jamaica to strengthen its promising manual eradication program. There is need for perhaps an additional $10 million for aircraft and support commodities in our opium and marijuana eradication programs.

Question. A primary goal of United States strategy for curbing narcotics availability and use is to curb production at the source. Further, the State Department's 1986 anti-narcotics strategy report states that "crop control is the highest priority of the international program."

Given the fact that most illicit narcotics are imported into the United States, doesn't the amount spent on overseas programs seem to be disproportionately small? (According to Elliot Abrams, $100 million out of approximately $1.5 billion per annum for all U.S. enforcement, prevention, treatment and rehabilitation efforts).

What concrete steps is the Administration taking to initiate new crop control programs and expand existing ones? Is the budget item for crop control programs proportionate to its stated priority?

Answer. It is not appropriate to compare expenditures for narcotics control on a dollar-to-dollar basis with the inflated profits traffickers ultimately realize through street sales. The kilogram of pure heroin that sells wholesale for $215,000 in New York City was processed from 10 kilograms of raw opium in Pakistan that may have sold for $450. The 5,000 hectares eradicated in Peru in 1985 could have produced 5,000 metric tons of dry leaf, or 10 tons of cocaine worth $50 million wholesale in the United States—compared to our total 1985 budget of $2.4 million for all activities in Peru in 1985.

This Administration has been very successful in starting and expanding crop eradication programs. In 1981, only two countries were conducting eradication campaigns; in 1985, there were 14 countries eradicating illicit narcotics crops intended for export to the United States. These campaigns are the product of our long-term strategy which effectively blends diplomatic initiatives with offers of narcotics control program support and development assistance.

Question. It is been documented in various reports that the economies of such countries as Peru, Bolivia, Colombia, Mexico and Jamaica are to one extent or another dependent on illicit narcotics production and/or trade. In light of the economic incentives for illicit narcotics production and trade, how can we realistically expect our control efforts to achieve positive results where these incentives are substantial?

Answer. The extent to which national economies are dependent upon or benefit from the narcotics trade has never been accurately documented, but, it is well understood that local economies, especially in the farm belts of such countries, do benefit. Moreover, in the several source countries with depressed economies, narcotics cultivation frequently provides the major and sometimes only dependable cash crop. Fortunately, there are competing pressures: governments in every region are experiencing numerous adverse social, economic and political consequences from narcotics trafficking. Addiction rates in source countries are soaring; political insurgent groups are deriving monetary support and arms from the narcotics trade and are challenging the central governments for control of territory; legitimate economies are being undermined; and narcotics traffickers are vying for political control. In the last two years, these multiple phenomena have compelled many governments to realize that narcotics control is in their own interest, indeed that they are the primary beneficiaries of these programs. This commonality of interest has become our best hope for expanded, more effective narcotics control.

Question. In last year's foreign aid authorization and appropriations bills, Congress conditioned U.S. aid to Bolivia and Peru on their progress in reducing the amount of land cultivated with coca. A recent State Department report speaks positively of Peruvian efforts to control illicit coca production but no Presidential report, required by the legislation, has been submitted to congress. The State report indicates that progress in Bolivia has been less than satisfactory.

What are the prospects that Bolivia and Peru will meet the legal criteria for release of U.S. aid for FY 86 and FY 87?

Do you think that the sums allocated for coca control programs and alternative (e.g., crop substitution) projects in Bolivia and Peru are sufficient? What is required to do the job?

Answer. The certification for the first of two requirements imposed on Bolivia (passage of necessary legislation to establish its coca control system) was submitted to Congress on January 24 and has been reviewed by both authorizing and appropriations committees, and half of the embargoed economic and military assistance for FY 1986 is being released. Bolivia must eradicate up to 4,000 hectares to obtain release of the second half of FY 86 assistance, and this objective is in doubt, because of the difficulties Bolivia is encountering at this time in sustaining an eradication effort. We are consulting with Bolivian officials about a coca control plan and an amended program agreement with INM, both to become effective for FY 1987, which we think may present realistic objectives within Bolivia's capability.

The certification required for Peru for FY 1986 was prepared in March, but unfortunately has been delayed in submission to the Congress because it was caught up in the process of delegating certain signatory responsibilties from the President to the Secretary. We anticipate this certification will be submitted to the Congress before Members return on June 3. The prospects are good for Peru compliance with the requirements for FY 1987.

As stated in answer to other questions, it will be essential that we maintain the dual approach of narcotics control assistance, coupled with development assistance, in both Bolivia and Peru. From the narcotics perspective, we believe we must enhance the interdiction and enforcement efforts in Bolivia, which got off to a better start in 1986. We don't propose at this time to grant aircraft to Bolivia, but must serve Bolivia and Peru through an expanded regional air wing, which we initiated through the supplemental $5 million made available by your committee.

Question. The Department of State's 1986 International Narcotics Control Strategy Report states that "Lebanon supplies about 45 metric tons of hashish annually to the United States, some 30 percent of the U.S. market." The report further notes that "there are credible reports of ties between traffickers and high level Syrian officials (which) are believed to be a function of the hashish trade out of Lebanon.

Since the United States has little or no control over events in Syria or Lebanon, what can we do and what are we doing to deal with this problem?

Answer. There are reliable reports out of Lebanon indicating that heroin is trafficked from Southwest Asia through the Bekka Valley, also that opium is now being grown there, and that both domestic and imported opium products are being refined into heroin in the Valley. Moreover, there are now reports of cocaine being imported from South America and receiving final processing in the Valley. At this time, the amounts of both heroin and cocaine going this route are not believed large. At least some part of the traffc is believed to have the blessing and probably some level of involvement by Syrian military officers in the Valley, although the trafficking itself is controlled by Lebanese. There are indications of involvement by individual officials but no evidence of a policy of narcotics involvement by the Government in Damascus.

Given the lack of access, the options available include controls on production at the sources in Southwest Asia and Latin America, controlling the flow of precursor chemicals from Europe to the Middle East, and tighter enforcement controls in the transit countries which are the onward shipment points for drugs transiting Lebanon and perhaps Syria.

ROLE OF COMMUNIST GOVERNMENTS AND TERRORIST GROUPS

On May 14, 1985, Deputy Assistant Secretary Taylor, INM, testified to the Committee on Foreign Relations that "there is no evidence of a Communist conspiracy to use drugs to undermine Western democracies, or our own society in particular." However, as Secretary Shultz said to the Miami Chamber of Commerce in September, 1984, it is "not hard to imagine that smuggling massive amounts of drugs into Western nations may serve their broader goal of attempting to weaken the fabric of Western democratic society."

We have documented the involvement of high level officials in certain Communist or Communist-influenced governments, notably Bulgaria, Cuba and Nicaragua, in the narcotics trade, but have stopped short of declaring that Communist governments world-wide have engaged in the drug trade as a matter of policy. Instead, the Secretary has said that the complicity of certain Communist governments in the drug trade is part of a larger pattern of international lawlessness by Communist nations, and is cause for grave concern. Again, the nations which have been singled out by the Department are Bulgaria, Cuba and Nicaragua.

There are roughly four categories of organizations with which we are concerned: criminal profiteers (who dominate the narcotics trade in every hemisphere), political insurgent groups (including the warlord armies in Asia like the Shan United Army and the FARC, M-19, ELN and others in Colombia), terrorist groups (like the Sindero Luminoso in Peru), and governments (like Bulgaria, Cuba and Nicaragua, or Bolivia in 1980-81 who give direct and indirect support).

PANAMA

Mr. OBEY. Maybe I better read a question here which was prepared for me. It is alleged one of the reasons for Mr. Maletta's ouster was his decision to call for an independent investigation of the murder of Dr. Hugo Speda Fora, who claimed to have evidence linking senior military officers from Panama with narcotics trafficking.

How seriously does the administration take those charges, that the Panamanian defense forces are deeply involved in narcotics trafficking?

Ms. WROBLESKI. I think we take the charges seriously. I would want to consult with my colleagues before submitting an administration position for the record. I am just not familiar enough with it. But I will say we are concerned about cocaine trafficking from Panama, money laundering from Panama.

By the same token, Panama gives strong cooperation, and ground support of the BPF has allowed the Bureau to come in twice to conduct separation applications. We conducted applications in August, and again in February.

CONTRA DRUG SMUGGLING

Mr. OBEY. Let me ask another question. The Washington Post this week reported the United States is looking into charges the contras have been involved in drug smuggling. The Post reported the administration people saying some rebels "may have engaged in such activity but that they were not acting on orders of their leaders".

Whether contras are involved in drug smuggling or have the blessings of their leaders or not doesn't make the situation or their involvement any better. What do you know about those charges, and what steps are being taken to move against contra drug smugglers or look further into those charges? Have you, in fact, taken any action against any individuals who are part of or associated with the contras in any way who have been involved with drug smuggling?

Ms. **Wrobleski**. As a result of the article, sir, the Bureau of Inter-American Affairs has provided to the Congress a three-page fact sheet on allegations of misconduct by the Nicaraguan Democratic Resistance, which were made available to your staff.

Mr. **Obey**. Who prepared that?

Ms. **Wrobleski**. The Bureau of Inter-American Affairs, which we made available.

Mr. **Obey**. Do you have any information prepared by anyone other than Mr. Abrams?

Ms. **Wrobleski**. No, sir, I don't.

Mr. **Obey**. I would appreciate knowing what you and what Justice has to say on this. Frankly, I take with a great deal of salt Mr. Abrams' testimony on a number of subjects, because I think he has such a clear policy I am not sure he would allow facts to get in the way of his making a point.

Ms. **Wrobleski**. Would you like us to submit something for the record?

Mr. **Obey**. Yes.

[The information follows:]

ALLEGATIONS OF CONTRA INVOLVEMENT IN NARCOTICS TRAFFICKING

Summary

1. At the Committee's request, the Bureau of International Narcotics has consulted with the Drug Enforcement Administration, which has reviewed its files on allegations of connections between drug traffickers and the various groups known collectively as "contras." INM has also consulted with other elements in the Department of Justice as well as other concerned Federal agencies, which also contributed information to this report.

2. We have no evidence that the leadership of the United Nicaraguan Opposition (UNO) is or has been engaged in drug trafficking. There is also no evidence that any of these "contra" groups control any drug trafficking organizations. There is evidence that, in a limited number of incidents, known drug traffickers have tried to establish connections with Nicaraguan resistance groups and that individual members of the resistance, including certain individuals then-associated with the former forces of Eden Pastora, may have engaged in trafficking activity.

3. UNO leaders as well as Pastora have given assurances to the U.S. Government that they will not tolerate drug trafficking by members of their respective organizations, with violations punishable by expulsion from the "contra" organizations.

Discussion of Allegations

1. There is information indicating that a senior member of Eden Pastora's Sandino Revolutionary Front (FRS) agreed in late 1984 with a Colombian narcotics trafficker that FRS pilots would aid in transporting narcotics in exchange for financial assistance. Reportedly, at least one aircraft was provided by the Colombian trafficker, along with two crated helicopters and money. Only one incident is alleged to have resulted from this agreement; an FRS pilot was arrested in January 1986 in Costa Rica in possession of two kilograms of cocaine; this pilot was allegedly involved in the transhipment of 500-600 kilograms of cocaine to Florida in behalf of the Colombian trafficker. This pilot, Gerardo Duran-Ayenugui, was reportedly also a member of the Democratic Revolutionary Alliance (ARDE).

2. Earlier this year, a West Coast newspaper raised allegations arising from the so-called "frogman" case, an investigation conducted in 1982-83 by a San Francisco Organized Crime Drug Enforcement Task Force. These allegations have been investigated by DEA but could not be confirmed. The case, which earned its nickname from swimmers bringing cocaine ashore from a Colombian vessel in January 1983, focused on a major Colombian cocaine smuggler, Alvaro Carvajal-Minota, who supplied a number of West Coast traffickers. It was alleged but never confirmed that Horacio Pereira, an associate of Carvajal, had assisted the contras. However, Carlos Cabezas and Julio Zavala, two of the jailed West Coast traffickers who received drugs from Carvajal, claimed that they delivered large sums of money to contras in Costa Rica, and that Pereira, who was not charged in the case, had said the profits from the drug sales would finance contra activities. The U.S. attorney in the case notes that Cabezas and Zavala did not raise these issues as a defense in their trial or at sentencing, but waited two years before making these allegations, which, as indicated, could not be confirmed.

3. Renato Pena-Cabrera was one of two Nicaraguans arrested in 1984 in a separate San Francisco-based investigation of drug trafficking; he claimed at the time of his arrest that he was a volunteer worker for the San Francisco-based Nicaraguan Democratic Front (FDN). DEA found no evidence that Pena and an associate were engaged in drug trafficking at the direction of FDN, nor was any connection found between the San Francisco-based FDN and the Honduran-based Nicaragua Democratic Forces, also known as FDN. There is no evidence indicating that the Honduran-based FDN, or the Indian groups (KISAN or Misurasata) have engaged in narcotics trafficking.

4. Available information indicates that the apparently limited number of drug traffickers associated with ARDE and Pastora are smugglers engaged in a variety of illegal activities in Central America. This information indicates that their trafficking activities are neither controlled by nor directed by ARDE, FDN or other contra organizations. Furthermore, there is no indication that contra leadership was privy to their drug trafficking activities.

5. No information has been uncovered indicating that members of the Costa Rica-based UNO/FARN group headed by Fernando Chamorro have been involved in narcotics trafficking.

6. While there is no evidence that any drug profits have been paid or given to contra organizations, it is possible that some individuals have given drug proceeds to the movement, reflecting personal decisions by traffickers who sympathized with the movement, rather than systematic, organized efforts by the contras to engage in drug trafficking.

8. There is little incentive for traffickers to attempt to utilize contra members within Nicaragua, where the contras do not control land, air or sea routes or assets, nor do the organizations themselves have the physical assets to complement the multiple assets already controlled by Latin American traffickers. Instead, the available information points to involvement by a limited number of persons having various kinds of affiliations with or political sympathies for contra groups.

Ms. **Wrobleski**. I am not prepared to go beyond the statement that has been provided by the Department, which, as I say, we made available to your staff.

Mr. **Obey**. I would like to have your estimate. I would like to have the estimate of any other law enforcement agency involved in this you think appropriate, including the Justice Department.

Ms. **Wrobleski**. Let me say that it is my understanding, and I have no reason to doubt Secretary Abrams' testimony.

Mr. **Obey**. I am not saying I do. I just would like to have some other information gathered by other sources that would have law enforcement as their primary objective.

Ms. **Wrobleski**. Yes, sir. I am not sure it will be any different.

Mr. **Obey**. I am not sure it will either. But I would like to take the chance.

Ms. **Wrobleski**. Yes, sir.

Mr. **Obey**. OK. I am out of time. I thank you for your testimony.

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